Aid for Small Business Exporting Firms:

by
John A. Chenier
and
Michael J. Prince

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92-01137/

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The Role of Governments and Information Networks

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The Institute for Research on Public Policy
L'Institut de recherches politiques

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Printed in Canada

Legal Deposit Third Quarter
Bibliothèque nationale du Québec

Canadian Cataloguing in Publication Data

Chenier, John A.

Aid for small business exporting firms

Prefatory material in English and French.
Includes bibliographical references.

ISBN 0-88645-112-4

1. Small business—Canada. 2. Exports—Canada.
3. Foreign trade promotion—Canada. 4. Canada—
Commercial policy. I. Prince, Michael John, 1952-
II. Institute for Research on Public Policy.
III. Title.

HF1479.C43 1990 382'.63'0971 C90-097667-5

Camera-ready copy and publication management by
PDS Research Publishing Services Ltd.
P.O. Box 3296
Halifax, Nova Scotia B3J 3H7

Published by
The Institute for Research on Public Policy
L'Institut de recherches politiques
P.O. Box 3670 South
Halifax, Nova Scotia B3J 3K6

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Foreword

The gradual liberalization of trade, the internationalization of the flow of capital and accelerating transfers of knowledge will, in the next few years, serve to sharpen competition between countries, and between companies; business enterprises, whether large or small, will have no choice but to develop quality products and conquer new international markets.

Small and medium-sized businesses in Canada are no exception. They are going to have to find themselves a place on the export market, both nationally and internationally. With the implementation of the Canada-U.S. Free Trade Agreement and other moves to liberalise the international trading environment, Canada's small firms have greater opportunities to export. At the same time, however, they face more intense competitive pressure from abroad in the domestic markets that they used to think of as exclusively their own. Thus, the relative protection that companies enjoyed on their own national and international markets is fading gradually, and the technological lead enjoyed by some countries in general, and by some companies in particular, is becoming increasingly short.

To underscore this complex and evolving situation and environment, the present study offers a general outline of the position and intentions of small and medium-sized Canadian businesses in the export sector. Noting that Canada has one of the most open economies in the industrialized world, with commercial trade (exports and imports) accounting for about half of the gross national product, this study explores measures through which the pursuit of export opportunity is supported and enhanced by the federal as well as provincial governments. A host of programs now exist to accomplish this goal and small and medium-sized businesses are, at least in part, taking advantage of them.

Finally, it would be in the interests of Canadian small and medium-sized businesses to diversify their export markets. Again, this objective, namely the diversification of their exports, might be more effectively pursued by making better and more frequent use of Canadian international services and export programs which already exist.

Rod Dobell
President

July 1990

Avant-propos

La libéralisation des marchés, l'internationalisation de la circulation des capitaux et l'accélération du transfert du savoir aviveront, d'ici les prochaines années, la compétition entre les pays et les entreprises. Qu'elles soient grandes ou petites, ces dernières n'auront d'autre choix que d'améliorer la qualité de leurs produits et de conquérir de nouveaux marchés internationaux.

Les petites et moyennes entreprises canadiennes ne feront pas exception à la règle. Elles devront se tailler d'elles-mêmes une place sur les marchés de l'exportation, autant nationaux qu'internationaux. Avec l'avènement du libre-échange Canada/États-Unis et les tendances à la libéralisation du commerce international, les petites entreprises canadiennes voient s'ouvrir de nouvelles opportunités d'exportation. Du même coup, cependant, elles font face à une compétition plus intense sur les marchés locaux, qui leur étaient auparavant réservés. Le protectionnisme relatif dont elles bénéficiaient sur leur propre marché national et sur les marchés internationaux s'estompe graduellement, et l'avance technologique que détiennent certains pays, et plus particulièrement certaines entreprises, se réduit de plus en plus.

Pour souligner cette situation et cet environnement complexes et en évolution, la présente étude dresse le profil de la position et des intentions des petites et moyennes entreprises canadiennes du secteur de l'exportation. Sachant que le Canada possède l'une des économies les plus ouvertes du monde industrialisé et qu'il effectue des échanges commerciaux (exportations et importations) comptant pour près de la moitié de son revenu national brut, cette étude évalue dans quelle mesure la poursuite d'objectifs d'exportation est soutenue et favorisée par les gouvernements fédéral et provinciaux.

Une foule de programmes ont été créés en ce sens et les petites et moyennes entreprises, jusqu'à un certain point, tirent avantage de ceux-ci.

Enfin, il apparait dans l'intérêt des petites et moyennes entreprises canadiennes de diversifier leurs marchés d'exportation. En outre, cet objectif de diversification des exportations sera plus efficacement atteint par une utilisation meilleure et plus fréquente des services canadiens internationaux et des programmes à l'exportation qui existent déjà.

Rod Dobell
Président

Juillet 1990

Preface

In the spring and summer of 1986, we traversed the length and breadth of the Quebec-Windsor corridor listening to people explain the phenomenon of the exporting small and medium sized enterprise (SME). Before we were finished, we had interviewed more than one hundred people in Canada and abroad, talking to them about their experiences and seeking their views of the problems they had encountered and the remedies they had devised. While in the midst of analyzing the data we had collected, Michael Prince made ready to move from Ottawa to assume the Lansdowne Chair in Social Policy at the University of Victoria and John Chenier relocated to Oxford. Over the winter and the ensuing spring we "exported" our product back and forth across an ocean and a continent, piecing together the words and phrases that we thought conveyed the real world of the exporting SME.

There have been significant changes in both the context of the exporting environment and the numerous government programs aimed at supporting the exporting SME since the research was completed. As a forward is not an appropriate place to review so many and such diverse events, we would only note that the importance given to SME exporting and the challenges confronting both exporters and those government organizations that seek to encourage and support export activity have not diminished since our first interviews. Whether our sample was composed of particularly robust, well-managed or well-situated SMEs cannot be ascertained. We do note, however, that at the time of going to press, a cursory survey of available directories shows that more than 80 per cent of the firms are still active; some have attained the wish confided to us of selling all or part of the firm to larger interests; but, for the most part, there has been no dramatic shifts in export performance among the firms. As in any work of this scope, credit and thanks are due to many persons.

The authors would like to express their sincere appreciation to the many owners and managers of the SMEs that willingly took hours from their busy schedules to answer all of our questions. We would also like to thank those people in federal and provincial government agencies at home and abroad, trading houses, banks, export clubs and other related organizations who volunteered their time and opinions when asked to do so. We hope that they are able to find their views reflected in the following pages. Finally, we should like to note the special assistance provided by our research assistant, John Coghlan, who conducted some of the interviews and collected much information on the programs offered by governments.

While many people contributed to the research effort, it is we who must accept responsibility for the conclusions drawn. In the end, we hope that the points raised lead to a better understanding of the export process as it is viewed by those who would and do export by those who seek to help them.

John A. Chenier
Ottawa

Michael J. Prince
Victoria

July 1990

Préface

Pendant le printemps et l'été 1986, nous avons arpenté de long en large le corridor Québec-Windsor pour recueillir de l'information sur le phénomène des petites et moyennes entreprises exportatrices. Déjà avant la fin de l'opération, nous avions interviewé plus de cent personnes du Canada et d'ailleurs, qui nous avaient fait part de leurs expériences et de leurs visions des problèmes, auxquels il fallait faire face et des solutions qu'il fallait y apporter. Au beau milieu de l'analyse des données que nous avions recueillies, Michael Prince préparait son départ d'Ottawa pour occuper la direction de la Chaire Lansdowne de politique sociale de l'Université de Victoria et John Chenier retournait à Oxford. Pendant l'hiver et le printemps suivant, nous avons "exporté" aller-retour notre produit outre-mer et outre-continent, raboutant les mots et les phrases qui nous apparaissaient le mieux décrire la réalité des PME exportatrices.

Il est survenu des changements significatifs dans le contexte et l'environnement des PME exportatrices, notamment dans nombre de programmes gouvernementaux, pendant que nous en étions à compléter cette recherche. Il ne serait pas approprié de détailler ces événements après-coup, mais soulignons tout de même que l'importance accordée aux PME exportatrices est restée la même et que les défis qu'ont à affronter ensemble les exportateurs et les organismes gouvernementaux, qui visent à encourager et à soutenir les activités d'exportation, n'ont certes pas diminué. Que notre échantillon ait été composé de PME particulièrement solides, bien gérées et bien situées n'est pas assuré. Notons toutefois qu'un rapide coup d'oeil aux différents répertoires d'affaires nous a révélé, peu avant la publication de cet ouvrage, que plus de 80% des entreprises visitées étaient encore en activité. Certaines avaient réalisé leur désir, comme leur dirigeant nous l'avait confié, de vendre l'entreprise, en tout ou en partie, à des compagnies plus importantes; mais, pour la grande majorité, aucune baisse dramatique de la performance exportatrice n'a été constatée.

Comme pour tous les travaux de cette envergure, de la reconnaissance et des remerciements sont dus à plusieurs personnes. Les auteurs expriment toute leur estime aux nombreux propriétaires et dirigeants de PME qui nous ont volontiers accordé de leur précieux temps pour répondre à toutes nos questions. Nous voulons aussi remercier les agents gouvernementaux, fédéraux et provinciaux, d'ici et de l'étranger, les maisons de commerce, les banques, les clubs d'exportateurs et autres organisations qui nous ont offert de leur temps et nous ont communiqué leurs opinions chaque fois que nous le leur demandions. Nous espérons que les pages qui vont suivre refléteront bien leur façon de voir. Enfin, nous voulons souligner l'apport exceptionnel de notre assistant de recherche, John Coghlan, qui a mené plusieurs interviews et qui a recueilli énormément d'informations sur les programmes gouvernementaux.

Bien que nombre de personnes aient collaboré à la recherche, nous assumons l'entière responsabilité des conclusions qui en découlent. Pour finir, nous souhaitons que tous les points soulevés conduisent à une meilleure compréhension du phénomène de l'exportation tel qu'il est perçu par ceux qui exportent ou tentent de le faire et par ceux qui veulent leur apporter leur aide.

John A. Chenier
Ottawa

Michael J. Prince
Victoria

Juillet 1990

Executive Summary

1. The Study and the Sample

This research was guided by propositions developed from discussions with persons active in the areas of exporting and small business development, and based on our readings in fields of organization theory and public policy. The research issues identified spanned most aspects of exporting and the SME, ranging from factors affecting the decision to export, the means employed during the implementation of the decision, the role of government in the decision and follow-through, and the subsequent implications for the firm.

The findings are derived from in-depth interviews conducted with senior officers or owners of 53 small and medium-sized Canadian firms that export goods or services. Further interviews were conducted with officials from the Canadian, Ontario and Quebec governments as well as personnel from trading houses, merchant banks and other export service agencies thought relevant to the small business network.

Sixty-four per cent of the firms in our sample had less than 50 employees as of July 1986. The vast majority (81%) are "small" in size (i.e., less than 100 employees) while a minority (19%) would be called "medium". Most of the firms (66%) are significantly involved in exporting with 50 per cent or more of their sales from exports and for more than a third of the firms (36%), exports account for more than 75 per cent of total sales.

2. Exporting: The Reasons and Approaches

What prompted these firms to sell in export markets? For 22 firms (42%) in our sample, the need to export to survive was the heart of the decision to export as the domestic market was perceived to be too small to support the scale of operation necessary to remain viable. This was particularly the case with "high-tech" firms. Another group of 20 firms (38%) viewed exports as a desirable expansion path for an enterprise that had already proved viable in domestic markets. A third and final category of 11 firms (20%) exported on a more sporadic, "as needed basis" for the purposes of smoothing out fluctuations in domestic markets or absorbing unexpected surpluses.

As a rule, firms did not go about exporting in the "rational-comprehensive" manner prescribed by textbooks on exporting. Instead, we observed three main types of approaches to export marketing. We labelled these the *entrepreneurial-selective, haphazard* and *opportunity-knocks approaches.*

Twenty-nine firms (55%) performed a limited, selective analysis of potential trade markets abroad (entrepreneurial-selective approach). The decision process was simplified by relying much more on qualitative analysis and information derived from past experience, contacts and word-of-mouth at conferences and trade shows with suppliers, customers, visits to an area or government trade commissioners.

While the entrepreneurial-selective exporter seeks to reduce risk by analyzing relevant factors, the exporter employing the *haphazard approach* seeks to minimize the investment required—particularly with regard to the analysis of data—to succeed in export markets. To proceed in this manner implies little or no pre-analysis of potential markets and a shift in the burden of analysis to those outside the firm. It typically involves recruiting distributors or agents anywhere in the world. The assumption is that anyone on location wishing to become an agent, distributor or end-consumer of a product must be aware of local conditions, availability and price of competing products and hence their willingness to commit themselves is adequate indication of market potential. Roughly one-fifth of our sample (11 firms) developed exports markets in this manner.

Opportunity-knocks describes the situation where a firm with or without a predisposition towards exporting but without any effort on their part was suddenly directed towards a market through the actions of a buyer or other intermediary. Usually the only decisions required were whether to sell or not to sell, sign or not to sign and so forth. Opportunity-knocks was a major deciding factor for 13 (25%) of the firms.

Overall, as might be expected, those with the highest dependence on exports were most likely to devote more attention and resources to the selection and development of these markets.

Regardless of the extent of the market analysis, most searches were oriented towards the customer end of the sales chain. That is, most firms began the run through the export maze by locating customers, in an entrepreneurial, haphazard or opportune fashion as the case might be, and worked backwards to the firm from that point. The main advantage of this approach is that it placed some boundaries on the problems to be solved in reaching a given market at a competitive price.

The most popular of locating customers were trade shows, trade journals or trade commissioners. In some cases, the process was reversed and customers came to the firms.

3. Helping and Hindering

The most frequently mentioned problem among exporters was financing exports. With respect to developing countries, this could mean locating financing for projects or finding ways of getting payment out of countries (surmounting currency controls). In transactions involving developed countries, the problems centered on financing "open accounts" as some banks would not accept foreign receivables or did not treat them in a manner favourable to the firm. Sentiments that the level of awareness of trading environments and other trade financing instruments were inadequate were expressed about some branches of all the major banks.

Another problem frequently mentioned related to border crossings into the United States. For service firms, the problems were related to personal access to clients. For manufacturing firms, the problems were connected to personnel (with necessary tools and spare parts) entering to service or install equipment. Firms also reported problems with regard to acceptable product marking.

Firms exporting to Europe spoke of the time required and the difficulties encountered in getting product approval needed to sell in these markets. All the high-tech firms that required export permits to export their goods from Canada spoke about the problems this presented and, in some instances, the inequities they saw in terms of not being able to sell in certain markets. Finally, exporters raised some concerns of fluctuating exchange rates and the serious problems these posed for market stability and long-term market development.

Our search for who or what was most helpful to the SME in the initial development of their export capacity yielded some results both at home and abroad. The most helpful in terms of market intelligence were international trade shows. Another avenue for locating possible foreign representatives or selecting markets were foreign posts from both the provincial and Canadian governments. On the domestic scene, custom brokers and freight-forwarders were frequently mentioned as good sources of information on how to arrange transport, financing and other matters.

The overall impression was the degree to which the firms were isolated or insulated from viable information networks.

4. Marketing Arrangements and Implications

Firms would be well advised to take into account the patterns already established with regard to how one "normally" sells to the targeted industries and should give strong second thoughts prior to adopting structures that run counter to the normal practices of a given export market. While it appears that the most predominant and effective way to proceed in a new market is to locate and recruit local representatives who are already well integrated into the target market area, this should not be seen as the only alternative.

Export success could not be attributed to the selection of any single "right" channel. What was most appropriate varied with the situation, the product, the market size, the volume of exports and so forth. No magic equation could replace common sense and sensitivity to relevant local customs.

Overall, the firms employed a wide variety of marketing channels in export markets. Firms that used single sales channels and decentralized responsibilities for exporting tended to export a lower proportion of their total production. Firms employing a differentiated marketing approach with a continued degree of "home office" control tended to export higher proportions. These differences more likely reflect a firm's commitment to export rather than provide a recipe for success. But it also shows that most serious, successful exporters maintained a steady watch on export sales performance and customer satisfaction.

Whatever the structures and means adopted, an overriding factor was that firms be realistic in their assessments of sales potential and earning that might be derived from export sales when deciding on appropriate export channels and structures.

In addition to the new structures grafted onto but located away from the firm, the successful exporting firm can also undergo modification to the combination of skills and organizational structures of the home office. The exact nature of these changes often depend on the per cent of sales exported, the range of services or products exported, and the frequency and type of orders. The most common change was the importation into the firm—through training or recruitment—of new clerical/managerial skills related to the preparation of export documentation and transportation.

Exporting led to an elaboration of management roles in two key areas, sales and inter-organizational dialogue. In particular, exporting increased the requirement for interacting with other organizations in the firms domestic and foreign environments.

Those firms using exports as a path to expansion can encounter some special problems. As exporting progresses from between 20 to 40 per cent of a firm's output/sales, management can be faced with fundamental decisions concerning the maintenance of two markets which frequently call for different production processes (long runs versus short batches), different structures, customers and interaction patterns.

5. Government Assistance

Government programs and services clearly played a dominant role in the development of export markets. Of the 53 firms in our sample, 44 firms (83%)—i.e., 16 service firms (80%) and 28 manufacturing firms (85%)—received financial assistance from export development programs. Of these, 36 (68%) had received considerable federal and provincial government aid for both general business development and export marketing, often on a recurring basis. Only nine did *not* exhibit signs of dependence on government programs for supporting their export endeavours.

For both manufacturing and service firms, the more one traded with developing countries, the more important the role of the Canadian government.

Even though governments were very active and visible in the exporting community, problems were noted. There was a broad consensus that while program assistance to export was adequate, the level of service delivery, particularly the ability to provide up-to-date and relevant information was both inaccessible and inconsistent. That is, it was easy to find how to apply for money but, for those that tried, it was very difficult to find adequate and consistent sources of information. Frequent staff rotation and organizational changes added to these problems.

The difficulties related to the collection and exchange of relevant information was further exacerbated by assumptions on the part of governments concerning who exports (i.e., established firms), how information should be distributed (i.e., printed matter) and how firms should go about developing markets (i.e., rationally and comprehensively assessing the options). These assumptions placed unnecessary obstructions in the way of businesses dependent on export sales that were just starting up and trying to do their best with very limited resources. Also because of these assumptions, there was a mismatch between the information provided by governments and that being sought or actually required by the firms.

Finally, with respect to government agencies, firms were highly critical of the discriminatory rules and high charges set out by the Export Development Corporation. In particular, they saw the EDC's insistence that all exports must be insured if any one sale was to be insured, while at the same time, retaining the right to refuse insurance on "risky sales" as a case of "having their cake and eating it too".

6. Conclusion and Recommendations

There is a need for governments to develop a new set of assumptions in deciding which firms to help and how to help these firms develop export markets. These should reflect the possibilities for new firms developing export markets immediately. They should also reflect that the "best" way to proceed is not the sum of all the acts of previously successful firms. Firms can get by quite well by finding satisfactory and workable methods as opposed to some theoretically optimal approaches.

On the domestic scene, governments should decrease their emphasis on programs—which are creating financial dependencies in small firms—and direct more resources towards developing viable sources of information within the Canadian SME community. They should focus, in particular, on measures that would lead to more consistency, relevancy and continuity in the level of services provided.

Internationally, the Canadian government might wish to evaluate the factors used to decide the distribution of trade commissioners and assess how frequently these should be adjusted in accordance with world trade patterns and opportunities as these relate to the SME community. It should also reconsider the way in which it allocates responsibilities among the personnel at its posts.

Finally, there would not appear to be any single business organization that could serve as a focal point in any information network for exporting SMEs. At present, the associations expressly concerned with the problems of small businesses or manufacturers, for instance, view problems peculiar to exporters as related to only a small part of their constituency. At the same time, the organization focussing solely on exports, the Canadian Exporters' Association, is not perceived to be particularly relevant within the exporting SME community. If viable information networks are to be developed, these will be based on diffuse sectoral and regional organizations.

Sommaire

1. L'étude et l'échantillon couvert

Cette recherche fait suite à des discussions avec des personnes travaillant dans les secteurs de l'exportation et du développement de la petite entreprise; elle se base également sur toutes nos lectures dans les domaines de la théorie de l'organisation et de la politique publique. Les conclusions qui se dégagent de notre recherche s'étendent à plusieurs aspects de l'exportation et de la PME, partant des facteurs qui influencent la décision d'exporter, des moyens pris pour concrétiser sa décision, du rôle que joue le gouvernement dans la décision même et dans la poursuite du projet, jusqu'aux conséquences vécues par l'entreprise.

Les résultats proviennent d'interviews en profondeur menées auprès d'administrateurs-cadres ou de propriétaires-dirigeants de 53 petites et moyennes entreprises canadiennes exportatrices de biens ou de services. D'autres entrevues ont été effectuées auprès des responsables gouvernementaux du fédéral, de l'Ontario et du Québec, tout comme auprès du personnel des maisons de commerce, des banques commerciales et autres agences d'exportation faisant partie du réseau d'affaires de la petite entreprise.

Soixante-quatre pour cent (64%) des entreprises de notre échantillon avaient moins de 50 employés en juillet 1986. La grande majorité (81%) étaient de "petites entreprises" (i.e., moins de 100 employés) et très peu (19%) pouvaient être qualifiées de "moyennes entreprises". La plupart des entreprises (66%) réalisaient une proportion significative de leurs ventes (50%) dans l'exportation et pour plus du tiers des entreprises (36%), la part des exportations dépassait 75% des ventes totales.

2. Exporter : les raisons et la démarche

Qu'est-ce qui amène les PME à exporter? Pour 22 entreprises de notre échantillon (42%), le besoin d'exporter était lié à la survie de l'entreprise, les marchés intérieurs étant trop restreints pour soutenir un niveau d'activité rentable. C'était le cas en particulier des entreprises de haute technologie. Un autre groupe de vingt entreprises (38%) envisageaient l'exportation comme faisant partie de la stratégie normale d'expansion de l'entreprise déjà bien établie sur les marchés locaux. Une troisième et dernière catégorie, onze entreprises (20%) recouraient plus sporadiquement à l'exportation, sur la base d'un "besoin" justifié par la nécessité de contrer les fluctuations des marchés locaux ou d'écouler des surplus imprévus.

Règle générale, les entreprises ne se lançaient pas dans l'exportation en utilisant la démarche "rationnelle-raisonnée" prescrite dans les manuels d'exportation. Nous avons plutôt dégagé trois principaux types d'approches à la commercialisation à l'étranger. Nous qualifierions ces trois approches de "choix d'entrepreneur", de démarche "au petit bonheur" ou "d'opportunité qui frappe à la porte".

Trente-neuf entreprises (55%) s'étaient astreintes à une analyse réduite du potentiel des marchés sur lesquels elles se lançaient (approche "choix d'entrepreneur"). Le processus décisionnel était simplifié du fait qu'une grande partie de l'analyse qualitative et de l'information provenaient de l'expérience accumulée, de contacts et de conversations avec des fournisseurs ou des consommateurs lors de colloques ou d'expositions commerciales et de visites à des commissaires régionaux ou du gouvernement.

Alors que l'entrepreneur qui emprunte la première démarche à l'exportation cherche à diminuer le risque par l'analyse des facteurs prédominants, l'exportateur qui avance "au petit bonheur" tend plutôt, lui, à minimiser les investissements requis—notamment en ce qui a trait à l'analyse des données—pour réussir sur les marchés extérieurs. Cette façon de procéder suppose peu ou pas d'analyse préalable du potentiel des marchés et un fardeau de surcroît pour ceux qui travaillent en dehors de l'entreprise. Ce qui implique aussi le recours à des distributeurs ou des agents un peu partout dans le monde. On suppose ainsi que la personne qui veut devenir l'agent, le distributeur ou le détaillant d'un produit doit être informée de la situation locale, de la demande et des prix des compétiteurs, et l'on compte sur sa compétence à s'engager personnellement d'après des indications adéquates sur le potentiel du marché. Grosso modo, le cinquième de notre échantillon (11 entreprises) développait de cette manière leur marché d'exportation.

L'approche "opportunité qui frappe à la porte" décrit la situation où une entreprise prédisposée ou non à exporter—n'ayant en tout cas fait aucun effort en ce sens—se voit propulsée sur un marché par les activités d'un acheteur ou un autre intermédiaire. Habituellement, la seule décision qu'il y ait à prendre se résume à "vendre" ou "ne pas vendre", à "signer" ou "ne pas signer" et en route! Cette dernière éventualité représentait le facteur de décision majeur dans le cas de 13 entreprises (25%).

Dans l'ensemble, comme nous le prévoyions, les entreprises qui dépendaient le plus de leurs exportations, consacraient davantage de soins et de ressources à la sélection et au développement de leurs marchés extérieurs.

Sans trop se soucier de se perdre en analyses de marché, la plupart des recherches étaient orientées sur la toute fin de la chaîne de vente, le consommateur. C'est ainsi que la plupart des entreprises entraient dans le labyrinthe de l'exportation en situant bien son consommateur. Quelle que soit l'approche—entrepreneuriale, hasardeuse ou opportune—on travaillait à rebours de ce point en revenant vers l'entreprise. Le principal avantage de cette démarche était de fixer certaines limites aux problèmes à résoudre dans la recherche d'un marché donné à un prix compétitif.

Les moyens les plus couramment utilisés pour situer son consommateur étaient les expositions commerciales, les journaux spécialisés ou les commissaires industriels.

3. Aide et contraintes

Le problème le plus fréquemment mentionné par les exportateurs était le financement. En ce qui concerne les pays en voie de développement, cela pouvait vouloir dire trouver le financement pour un projet ou trouver le moyen de sortir les capitaux des pays (en venant à bout des réglementations monétaires). Les transactions impliquant les pays industrialisés, les problèmes touchent le financement des "comptes ouverts", car certaines banques n'acceptent pas les billets étrangers ou ne les négocient pas en favorisant l'entreprise. Il apparaissait que le niveau de conscience des environnements et outils financiers commerciaux était inadéquat, en particulier en ce qui concerne certains services des grandes banques en général.

Un autre problème fréquemment mentionné était lié à la traversée des frontières à l'intérieur des États-Unis. Pour les entreprises de services, l'accès aux clients en était limité. Pour les entreprises de fabrication, le problème touchait le personnel qui devait circuler avec des outils et des pièces de rechange pour faire l'entretien ou l'installation d'équipements. Les entreprises rapportaient également des problèmes à faire la commercialisation des produits.

Les entreprises exportant vers l'Europe déploraient les délais requis et la difficulté d'obtenir les autorisations nécessaires pour vendre sur ces marchés. Toutes les entreprises de haute technologie qui devaient se procurer des permis d'exportation pour vendre à l'extérieur du Canada mentionnaient les problèmes que cela représentait et, dans certains cas, les iniquités qui étaient constatées comme l'incapacité de vendre sur certains marchés. Enfin, les exportateurs soulignaient le rapport qui existe entre la fluctuation du taux de change et les sérieux problèmes qui en résultent quant à la stabilité du marché et quant au développement à long terme d'un marché.

Notre recherche de ce qui aiderait le plus les PME dans le développement initial de leurs capacités d'exporter nous a mené à des réponses qui se trouvaient autant ici même qu'à l'étranger. Les expositions commerciales internationales s'avéraient les plus précieuses pour la connaissance des marchés. Une autre voie pour recruter des représentants étrangers ou pour sélectionner des marchés passait par les bureaux des gouvernements canadien et du Québec ou de l'Ontario à l'étranger. Sur la scène locale, les courtiers à l'exportation et les transporteurs à l'étranger représentaient de bonnes sources d'information concernant les dispositions à prendre pour le transport, le financement et concernant plusieurs autres points.

L'impression générale qui se dégageait des propos recueillis était le degré d'isolement des entreprises, la façon dont elles étaient coupées de l'information vitale des réseaux.

4. Dispositions à prendre et conséquences

Les entreprises seraient avisées de prendre en considération les modèles déjà établis, en tenant compte de la façon dont l'entreprise "normale" vend aux industries cibles et elles devraient, en second lieu, bien réfléchir avant d'adopter des structures qui iraient à l'encontre des pratiques normales pour un marché extérieur donné. Quoiqu'il semble cependant que le processus le plus fréquent et le plus efficace pour accéder à un marché nouveau soit de chercher et de recruter des représentants locaux, qui sont déjà bien intégrés dans l'environnement visé, cette voie ne doit pas être envisagée comme étant la seule possible.

La réussite dans l'exportation ne peut être attribuée qu'à la simple sélection du "bon" canal. Ce qui apparait le mieux approprié varie avec le contexte, le produit, la taille du marché, le volume d'exportation et ainsi de suite. Aucune équation magique ne peut remplacer le bon sens et le flair face aux consommateurs locaux.

En général, les entreprises se servaient d'une grande variété de canaux de commercialisation vers les marchés d'exportation. Les entreprises qui utilisaient les simples canaux de vente et qui dispensaient les responsabilités n'exportaient le plus souvent qu'une faible proportion de leur production totale. Les entreprises qui employaient une approche différenciée à la commercialisation, tout en conservant un certain degré de contrôle sur les opérations, exportaient généralement une plus grande fraction de leur production. Ces différences reflètent plus vraisemblablement des degrés d'engagement différents des entreprises dans l'exportation, sans représenter la recette du succès. Toutefois, les exportateurs sérieux et qui réussissent bien restent vigilants face à leurs performances de ventes et face à la satisfaction du consommateur.

Quels que soient les structures et les moyens qui étaient adoptés, un facteur restait primordial: les entreprises devaient être réalistes dans leur estimation du potentiel de ventes et des bénéfices qui découleraient de leurs ventes à l'étranger, lorsqu'elles choisissaient les structures et les canaux de commercialisation appropriés.

En plus des nouvelles structures qui se greffaient—à distance—à l'entreprise, la réussite de l'entreprise exportatrice pouvait aussi amener la modification de la combinaison des savoir-faire et des structures organisationnelles internes. La nature exacte de ces changements dépend souvent du pourcentage des ventes à l'étranger, de la catégorie de produits ou services exportés et de la fréquence et du genre des commandes reçues. Le changement le plus courant apparaissait être l'introduction dans les entreprises—au moyen de formation ou par recrutement—de nouvelles compétences administratives ou de soutien administratif qui étaient requis pour la préparation des documents liés à l'exportation ou au transport.

Exporter conduit à l'élaboration de deux rôles managériaux dans les deux secteurs clefs que sont celui des ventes et celui de la communication inter-organisationnelle. En effet, la fonction d'exporter requiert une interaction accrue entre les organisations, tant au niveau du marché intérieur qu'au niveau des environnements étrangers.

Les entreprises qui ont choisi l'exportation comme voie d'expansion peuvent rencontrer certains problèmes. Alors que les exportations peuvent atteindre 20 à 40% du total des ventes, le ou les gestionnaires sont amenés à devoir prendre des décisions importantes concernant le maintien de deux marchés qui, dans la majorité des cas, nécessitent des procédés de fabrication différents (production par petits lots versus longue production, des structures différentes, des schémas d'interaction et de clients particuliers).

5. L'assistance gouvernementale

A n'en pas douter, les programmes gouvernementaux et les services offerts par le gouvernement jouent un rôle déterminant dans le développement des marchés à l'exportation. Sur notre échantillon de 53 entreprises, 44 d'entre elles (83%)—dont 16 entreprises de services (80%) et 28 entreprises manufacturières (85%)—bénéficient d'une assistance financière liée à des programmes de développement à l'exportation. Sur celles-ci, 36 (68%) ont reçu une aide gouvernementale provinciale et fédérale importante pour promouvoir le développement des affaires en général et la mise en marché (le marketing) liée à l'exportation, dans la plupart des cas sur une base commune. Seulement 9 d'entre elles ne montrent aucun signe de dépendance à l'égard des programmes gouvernementaux visant à soutenir leurs actions pour exporter. Que ce soit pour les entreprises de services ou les entreprises manufacturières, plus le commerce avec les pays développés sera grand, plus le rôle du gouvernement canadien sera important.

Bien que les gouvernements soient très actifs et très visibles au sein de la communauté exportatrice, des problèmes existent. Il y a consensus pour reconnaître qu'en dépit de programmes d'assistance à l'exportation adéquats, le niveau des services offerts était inaccessible et incompétent; ceci est particulièrement vrai lorsqu'il s'agit d'obtenir des informations à jour et pertinentes. Ce qui revient à dire qu'il est aisé de savoir comment s'y prendre pour demander de l'argent, mais pour ceux qui s'y essaient, il devient très difficile de trouver les sources d'information adaptées et solides. Les rotations fréquentes du personnel ainsi que les changements organisationnels compliquent encore plus les choses.

Les difficultés liées à la collecte et à l'échange d'information sont aggravées par les suppositions des gouvernements concernant l'identité de l'entreprise qui exporte, les moyens par lesquels l'information devrait être distribuée (i.e. la paperasserie) et la manière dont les entreprises devraient fonctionner pour développer les marchés (i.e., l'évaluation complète et rationnelle des opportunités). Ces préjugés sont inutiles et surtout ils entravent les entreprises au niveau des ventes d'exportation, alors que celles-ci démarrent et essaient de faire de leur mieux avec des ressources limitées. De plus, toujours à cause de ces suppositions, il y a une inadéquation entre l'information fournie par les gouvernements et celle nécessaire et réellement sollicitée par les entreprises.

Ainsi, concernant les agences gouvernementales, les entreprises sont très critiques au sujet des règles discriminatoires et des coûts élevés imposés par la Société pour l'expansion des exportations (The Export Development Corporation—EDC). Par exemple, elles voient d'un mauvais oeil l'insistance de la SEE pour que toutes les exportations soient assurées si n'importe quelle vente se doit de l'être, alors que cette dernière se garde le droit de refuser d'assurer des "ventes à risque"; ce qui revient à vouloir "garder le beurre et l'argent du beurre".

6. Conclusions et recommandations

Il est indispensable que les gouvernements élaborent de nouvelles hypothèses pour décider quelles entreprises ils aideront et comment les aider à développer les marchés à l'exportation. Elles devront refléter les possibilités pour les nouvelles entreprises de développer immédiatement les marchés d'exportation. Elles devront également montrer que la "meilleure" façon de procéder n'est pas la somme de toutes les actions prises antérieurement par des entreprises prospères. Les entreprises peuvent parfaitement s'en sortir en trouvant des méthodes satisfaisantes et qui fonctionnent, ce qui s'oppose à certaines approches optimales théoriques.

Sur la scène intérieure, les gouvernements doivent diminuer l'emphase mise sur les programmes—qui créent des dépendances financières pour les petites entreprises—et orienter davantage de ressources pour le développement des sources d'information viables, au sein de la communauté canadienne des PME. Ils devraient particulièrement insister pour mesurer les niveaux des services offerts, ce qui leur donnerait certainement plus de consistance, de pertinence et de continuité.

Au niveau international, le gouvernement canadien pourrait vouloir évaluer les facteurs utilisés pour décider de la répartition des commissionnaires commerciaux ainsi que de la fréquence à laquelle ils devront s'ajuster par rapport aux opportunités et aux structures du commerce mondial, et par rapport à la communauté des PME. Il devrait également reconsidérer la manière dont les responsabilités et les fonctions sont allouées au sein du personnel.

Enfin, il apparait qu'il n'y a pas une seule organisation d'affaires qui puisse servir de point central dans un réseau d'information lié à l'exportation des PME. Pour le moment, les organisations concernées exclusivement par les problèmes des petites entreprises d'affaires et manufacturières, voient les difficultés particulières reliées aux exportateurs comme concernant une petite partie de leurs clients. Au même moment, les organisations

tournées exclusivement vers l'exportation, comme l'Association des Exportateurs Canadiens (The Canadian Exporter's Association), ne sont pas perçues dans la communauté des PME exportatrices comme particulièrement adaptées. Dans la mesure où des réseaux d'information viables doivent se développer, ils devront être basés sur des organisations à diffusion sectorielle et régionale.

Chapter 1

The SME and Exporting

I. Made in Canada?

Ever since the early explorers came to this country hoping to find silk and spices, and instead, found fish and furs, Canada has had a strong dependence on exporting. For nearly 400 years the emphasis has been placed on the ability to export our primary resources. Throughout most of this period, government efforts to encourage exports have taken the form of assistance for the development of physical or organizational infrastructure which would enhance the movement of primary products to offshore markets. Insofar as manufacturing was concerned, public policy was geared towards ensuring a Canadian capacity to produce goods, however inefficiently, within our borders for the small domestic market.[1]

Since the end of the Second World War, but most notably since the conclusion of the "Kennedy Round" of the GATT negotiations, a number of factors has led to a slow but steady shift in emphasis toward the development of more competitive, export oriented secondary industries. This shift was further accelerated by the outcome of the Tokyo Round of trade negotiations.[2] Past government efforts aimed at improving manufacturing performance have generally been directed towards the problems of low productivity in our existing manufacturing facilities or, more recently, on building on the "comparative advantage" accruing from the extraction of the resource base.

With regard to the former, as a consequence of the earlier trade and tariff regimes, much of Canada's manufacturing sector consisted of foreign owned factories designed to service the small domestic market. These were characterized by short, more costly production runs of a wide variety of items. A prerequisite for increased trade opportunities for Canadian manufactured goods is increased efficiency. This demands longer production runs which, in turn, requires larger markets.

The trade liberalization in manufactured goods has affected both government policy and the work flows within the multinational organizations that operated most of these inefficient plants. With the dismantling of tariff barriers to the flow of goods, the multinationals began to rationalize their production facilities, thus heralding the concept of the "world product mandate". Instead of manufacturing many products lines in one plant for local distribution, production was rearranged to permit the manufacture of one good for shipment to many markets. In this way, economies of scale could be balanced against transportation costs, tax regimes and other factors that influence what can most profitably be produced at any location.

In the late 1970s, the central issue within large multinationals and many governments became the allocation of these "world product mandates" among the various final products produced, or along the production chain in situations where parts were fabricated in several areas around the world and brought together for final assembly at another location. At stake in these decisions were technological development, environmental safety, number and type of employment opportunities and so forth. Export assistance, per se, was not a major policy objective as markets and mature marketing systems already existed in locations around the world. Instead, government programs centered on enticing firms to locate the most suitable (usually this meant *any*) new "world-mandated" plants in Canada, and on offers to help modernize older branch plants so as to increase their efficiency and competitiveness.

The limits of "world product mandate" to respond to Canada's need for a vibrant, viable, export-oriented manufacturing sector could be quickly discerned as the multinational corporations began to implement their rationalization plans in the late 1970s and early 1980s. The increased efficiency from these changes meant fewer plants were needed to meet existing markets, while fewer trade barriers made a Canadian location less essential. If Canada was to try and hold its own in the manufacturing sector, then more reliance would have to be placed on home-based domestic manufacturers.

Further government policies to enhance secondary manufacturing goods included inducements for the "further processing" of the country's primary resources prior to exporting. Emphasis was placed on further "downstream" processing of petrochemicals, forest products, and minerals. Closely related to this were the attempts to develop or improve the efficiency of secondary industries through the replacement of imported manufactured goods related to the extraction of primary resources. These efforts were often designed around the numerous "*major projects*"—usually but not always energy related—that were planned. As well, some attention was directed towards improving Canadian capacity to service and supply traditional industries such as fishing and forestry.[3] It was expected that some of these firms, if encouraged to serve the local market, would also become sufficiently efficient to compete in world markets.

In the course of these efforts, subtle changes were taking place to the profile of exporting firms. Many new exporting companies were not linked to multinational enterprises. Because of the changing technologies (both in the means of production and the type of the goods produced), these exporting firms were getting smaller. It became evident that government export programs would have to be modified to assist firms that initially did not have extensive contacts or presence in foreign markets. That is, if the federal and provincial governments wanted to stimulate further exports in manufactured goods further, their programs would have to address the special concerns of small and medium-sized business firms.[4]

II. The Demands and Assumptions of Exporting

As many writers before us have noted, the development of a capacity to export goods and services has several implications for the firm. Models of appropriate export behaviour call for firms to acquire and digest information related to marketing, legal and financial matters, modes of transport, as well as an appreciation of cultural and marketing differences in the targeted countries.[5] It is assumed that the ability of the firm to gain access to this information—and subsequently incorporate these factors into the operations of the firm—will be reflected in the success of the export strategy.

However, it is hypothesized that the demands of exporting present special problems for small and medium-sized firms.[6] The limited amount of resources available to small firms, especially in terms of managerial time or exporting expertise, may seriously hamper the development and realization of export potential. "Rational models" of exporting, reflected in both academic literature and government brochures call for considerable investment in time and effort in ascertaining export potential. As one government publication puts it:

> The decision to sell overseas has considerable implications for the products, finances and organizational structure of the company. It requires a great deal of preparatory work and real commitment to selling a product abroad.[7]

Prior to any serious exploration of foreign markets, managers are advised to make a sound appraisal of their companies performance; to evaluate the present and expected domestic requirements; to consider the resources available to support export activities; and to critically assess the salability of the firms products in other markets. The unspoken implication is that if there is not time to do all this preparatory work then the firm is not yet prepared to enter the export market. On the other hand, if the results of this preliminary survey sound promising, managers are then encouraged to embark on a more elaborate market survey. The list of subsequent tasks to perform is onerous.

We shall have more to say about the perceived "appropriate procedures to successful exporting" when we examine the behaviours of the firms in our sample. It is fair to note, however, that the emphasis placed on rationality in decision-making and rational ways of proceeding towards export marketing provided much of the stimulus for this study. Our central purpose was not to arrive at a theory that would allow us to explain all that we found. Neither were we setting out to find the "one best way" to structure or proceed with export arrangements. Similarly, we did not start out with the premise that there should be a unique, predictable, comprehensive set of reasons which led to the decision to export just waiting to be discovered. Our work in public policy and organization theory suggested the richest veins would be mined if we placed our efforts elsewhere.

III. Earlier Enquiries

As one might expect, the earliest explorations into export behaviour focused on the practices of larger firms. Implicit in this research is that firms tend to export in later stages of their development, and that considerable expertise and resources can be marshalled from within the firm towards the objective of developing foreign markets. This approach to the study of international trade will be found in most general marketing texts where the aim is not to instruct entrepreneurs how to start and manage their own small companies, but rather to prepare persons for work in large enterprises. Neither the research findings nor the prescriptions offered in these studies bear much resemblance or relevance to the behaviour found in small firms.

With time, more and more persons have concentrated their research focus specifically on small firms. Much time has been spent trying to discover the factors most related to the propensity of small firms to search out export opportunities and uncover the special problems these firms encounter. The work of Bilkey, Tesar and Cavusgil in the United States, Duguid and Jaques or Tookey in the United Kingdom and subsequently, Reid, Rosson and Denis in Canada are prime examples of research in the area.[8]

A recent survey of the literature in this area listed the major objects or questions posed in SME research with respect to exporting.[9] The key variable most often explored are these attributes associated with the head or "key decision-maker" of exporting firms in comparison with non-exporting firms. Among the questions posed are items such as: do exporters have different attributes and how might these be related to exporting? Factors considered in these studies range from external attributes such as foreign contacts, foreign travel or languages spoken; to personal attributes such as aggresiveness, positive attitude or creativity.[10]

Studies extending beyond the "trait" theories of exporters have looked at the importance of factors such as stages of development (which tests whether exporting develops in a time sequence), product, or country in determining export behaviour.[11] Still other studies have looked for the major stimuli for exporting. Does exporting result from external causes such as unsolicited orders, a saturated home market or better opportunities for profit in foreign markets? Or, is it brought about mainly by internal factors such as excess capacity, a unique product or a particular marketing advantage?[12]

The review of the literature also notes the concern of factors such as size, demographic characteristics inside the firms, marketing variables and so forth. At the end of his review, Miesenbock states that while there is considerable contradiction, in general, the literature supports four conclusions.

> One is that exporting is a sequential process, during which the firm increases gradually its export commitment. Second, the decision-maker of

> the small firm with his characteristics and perceptions is the most important variable in the process. Third, the variables determining the export behaviour of the firm are not independent of the stage of internationalization, of the exported product or service and of the home country of the (prospective) exporter. And the fourth conclusion is that today, it is impossible to state which variables these are and in which way they influence export performance.[13]

Among these many studies into exporting SMEs one finds a rich vein of research into small business exporting in Canada. In 1975, a major study of the factors related to export intentions and success of more than 300 small and medium-sized firms in Quebec was undertaken by the chambre de commerce (popularly known as REDEX study).[14]

The data provided by this survey has been analyzed in a number of ways and integrated into other work by Jean-Emile Denis and several of his colleagues to better understand the export behaviour of small firms. The culmination of this work has been the development by Denis and Beliveau of a series of questions which is designed to help individual firms discover whether they have the necessary resources and abilities to enter export markets. The questions yield a firm "profile" which can be compared to firms that have succeeded in the past.[15]

In addition, much work has been done on the networks which have already, or ought to be developed to help small businesses export. Both government reports and academic studies have provided information on ways to improve the export performance by focusing on the "community of small business" and the communication and sharing within this community of information related to exporting. This work entails analysis of the importance and role of government programs as well as the value of related firms such as freight-forwarders, trading houses and so forth.[16]

As well as the "Quebec studies" based on REDEX, there is also the body of knowledge stemming from the analysis of 89 small and medium-sized Ontario firms done by S. Reid.[17] Through subsequent analysis of this data, Reid has examined a number of factors which might influence the export behaviour of small firms in greater detail. The effect of government export programs, the source and influence of information on the decision to export, and, more recently, the export arrangements and structures established by small firms have been scrutinized.[18]

While work in these areas continues, a noticeable shift in research concerns towards the arrangements and activities of small firms within foreign markets can be detected. Studies are currently underway to determine the factors which influence pricing decisions and the optimum structures for marketing and distribution in foreign markets.

To a considerable extent, this study provides an appropriate bridge for linking past and present research concerns. It reflects the awareness that the internal behaviour of the firm is shaped much by events and decisions external to both the firm and the country. Our focus is on both behaviour within organizations and relations between organizations. System and contingency theory literature in organizational behaviour, the more recent literature concerning the "network" or inter-organizational relations and studies in business/government relations provide the most salient theoretical grounding for our inquiry.[19]

IV. Research Outline

1. The Issues

Our research efforts were guided by a number of propositions developed from discussions held with persons active in the areas of exporting and small business development, or based on our readings in fields of organizational theory and public policy. These research issues identified spanned all aspects of exporting and the SME. They ranged from the factors affecting the decision to export, the means employed during implementation of the decision, the role of government in the decision and follow-through, and the subsequent implications for the firm.

The first supposition related to the decision to export and demonstrated our healthy skepticism of the "rational" approach usually prescribed for firms looking to export. We believed that the "model behaviour" of a novice exporter implied by the literature demands far more resources than are either necessary to succeed or likely to be present in most small firms. Seldom would such decisions be taken by people sitting around the boardroom table digesting all the facts and options. In order to test this supposition we needed to find out both why our firms decided to export and, if relevant, how they subsequently went about selecting and developing export markets.

A second supposition dealt with the major problems experienced by exporters and how they went about solving these. We were interested in defining problems related to what we saw as three distinct phases: problems related to the initial exploration of markets and shipment of goods; problems which arose during subsequent sales in established export markets; and, problems associated with the development of further export opportunities. Thus, our questions had to be designed to segregate the problems encountered in each of these phases. Our interests lay not only in uncovering the problems but also identifying who outside of the firm proved useful in helping to solve these. Thus, with each problem identified, further information concerning how the firm went about overcoming this and who or what had been helpful in finding a solution was necessary.

A further proposition was related to government programs and services. We surmised that most firms would make extensive use of government services and would, over time, incorporate expectations of ongoing government assistance in future plans. Once firms learned how to access government programs, they would tend to make use of this expertise and hence become increasingly dependent of government assistance. The degree of dependence would be related to factors such as relative costs to develop and sustain markets or the degree to which a firm depended on exports for its survival. In order to test these, we had to obtain details on the type of government programs used, the history of the firms interaction with government, and the frequency of contact with government organizations.

Exporting entails new skills, new interactions and new behaviours. While it was difficult to formulate specific propositions for the effect this could have on a firm, we did attempt to discover the implications for specialisation, firm growth and the ability of a firm to learn from experience. The extent to which special skills could be and were incorporated into the firm, or who handled any extra contacts with foreign agents, government departments and so forth were considered of prime importance. We hoped to discover and describe these changes and what influenced these and then to draw some conclusions of the results. To flesh out the implications for exporting, we also wanted to find out who inside the firm had responsibility for communicating with relevant persons outside of the organization and how this changed over time and with experience in exporting.

2. *The Approach*

"Exporting is generally thought of as the transfer of goods to overseas markets."[20] For many small firms, however, exporting means the development, maintenance and adjustment of new inter-organizational relationships to effectively transfer goods and services across national boundaries. Exporting alters and extends a firm's inter-organizational network. Marketing channels grow and become more complex. The need for interactions with new individuals, government bodies and other organizations emerge. Our contention is that the export behaviour of the small or medium-sized firm is only properly understood when the firm's "network" or "organization set" is identified and assessed.

The issues under examination seemed ideally suited to the application of network analysis. A central theme and approach to the study is that exporting is a form of networking. A "network" as the term is used here, consists of any number of organizations, in Canada and abroad, that interact with a domestic firm engaged in international trade. A network refers to a specific set of linkages among a defined set of organizations. These linkages could include economic transactions, information flows, technology transfers and expectations. The premise of network analysis is that the characteristics of these linkages as a whole can be used to understand the behaviour of the core organization, that is, the small Canadian exporting firm. Although still in the development stages, the concept of networks in understanding events and situations is arguably one of the most exciting developments in organizational theory and analysis.[21]

The effort to apply elements of network analysis to the study of export behaviour of small firms was the determining factor in the selection of the research methodology. For each firm we wished to develop a network diagram noting the relevant interactions of the major actors in the immediate environment of the firm: to trace the links with those individuals and agencies in both the domestic and international environments to those persons inside the firm. Mail-out surveys and multiple choice questionnaires were not suitable for this task. Instead, we opted for structured interviews which lasted, on average, 90 minutes and ranged from 45 minutes (no use made of government programs) to four hours.

Our primary data base, therefore, consists of in depth face-to-face interviews with senior officers or owners from 53 small and medium-sized Canadian firms that export goods or services. In addition, approximately 20 interviews were conducted with officials from the Canadian, Ontario and Quebec governments, at home and abroad, as well as personnel from trading houses, merchant banks, and other export service agencies thought relevant to the small business network. In some instances, the interviews were supplemented by follow-up communication by telephone or letter.

3. *The Sample*

The sample of firms was selected from the federal Department of Regional Industrial Expansion's "BOSS" (Business Opportunity Sourcing System) data file along with a list of firms compiled from recent press reports related to Canadian exporting. The selection criteria set by our client, The Institute for Research on Public Policy, were as follows: 50 firms that export and are located in central Canada, approximately 30 in Ontario and 20 in Quebec; of which approximately 30 firms would come from various manufacturing sectors and 20 would come from service industries. For the purposes of our study, small and medium-sized were defined as firms having fewer than 250 regular full-time employees.

Requests for interviews were mailed out to 260 firms that were identified as Canadian-owned, having fewer than 250 employees, with some experience in export markets and operating in Ontario and Quebec. Three weeks later, we followed up the mailed requests by telephone calls. Sixty affirmative responses were received. In the end, we were able to interview 32 firms from Ontario and 21 from Quebec. Twenty of the 53 operated in the service sector.

All the firms in our sample exhibit a number of central attributes. As business concerns they perform economic functions and are profit seeking entities. All the firms face the critical challenge of pursuing operational efficiency and maximizing financial performance while competing in foreign markets and managing across national boundaries. At the time of our research, some of the firms in the sample were in a "loss" situation, and a few of the firms were vigorously struggling to survive. None of the firms are "giant" organizations in terms of number of employees. This has implications, especially for the smaller firms in our sample, for the degree of specialization of activities and standardization or formalization of procedures both within a firm and across its external networks of operation.

As Table 1.1 shows, 64 per cent of the firms in our sample had less than 50 employees as of 1986. Expressed another way, the vast majority (81 per cent) of firms examined in this study are "small" in size (i.e., less than 100 employees) while a minority (19 per cent) are "medium" in magnitude. While most firms envisioned modest growth in employment, several firms had decreased in size during the 1981-82 recession.

The firms in our sample also vary along several dimensions, illustrating the diversity found within Canadian business. First, the firms differ in terms of total annual sales, ranging from about $150 thousand to $120 million. About 10 per cent have total sales less than $1 million while most have sales between $1 and $20 million. Only three firms (6 per cent) had sales in 1985 of over $100 million or more. Second, the firms vary by "export intensity", that is, export sales as a percentage of total sales.

Table 1.1
Number of Employees

Employees	Number of Firms	% of Sample
Less than 50	34	64
50 - 99	9	17
100 - 199	6	11
200 - 250*	4	7
Total	53	99**

* One of the firms in this category crossed this threshold in the six month period prior to our study through a major plant expansion.

** Does not total 100 due to rounding.

Table 1.2, which arranges the 53 sample firms according to their exports to total sales ratio, provides an illustration of the export behaviour/success of the firms included in our sample. It shows the frequency of exporting of service and manufacturing firms according to the percentage of exports to total sales. Category I consists of all the firms with exports accounting for less than 25 per cent of sales. Category II has all the firms having more than 25 but less than 50 per cent of their sales in the export market. In category III are those firms who export between 50 to 74 per cent of their products or services. Finally, in category IV are those firms whose exports account for more than 75 per cent of total sales.

Table 1.2
Categorization of Sample by Percentage of Exports to Total Sales

	< 25%	25-49%	50-74%	>75%	Totals
Manufacturing	6	4	11	12	33
Service	4	4	5	7	20
Totals	10	8	16	19	53

Most of the firms (66 per cent) are significantly involved in exporting with 50 per cent or more of their sales from exports and more than a third of the firms (36 per cent) derive more than 75 per cent of their sales from exporting. Generally speaking, then, we are dealing here mainly with "high" exporters.

Third, the firms differ in terms of their age. A few are only three or four years old while some others are 60 years old. The relatively young age of some exporting firms is relevant to such organizational behaviour and management issues as firm survival and growth as well as corporate learning and institutionalization.[22]

Our sample of manufacturing firms includes the following standard industrial sectors: agricultural production, chemical and allied products; fabricated metal products; machinery and transportation equipment; electronic and electrical machinery; measuring, analyzing and controlling instruments; photographic and optical goods; medical devices and wholesale trade. In addition, the manufacturing firms vary in terms of the scale of technical complexity in their production processes and in the scope and stability of general business environment and export market. For some, exports account for only 5 per cent of gross sales; for others, the figure is 99 per cent.

The service-based firms examined come from the following industries: consulting engineering; surveying and mapping; management and communications consultants; computer consultants; agronomists; and defence systems. Once again, there is a wide variety in the percentage of exports to domestic sales, the number of employees and the length of time in business. As service providing firms, these businesses, by definition, are said to produce an *intangible* consumer good that addresses some human want or need for a price. Such intangible goods include technical expertise, professional experience and contacts, and personal knowledge. These services cannot be physically handled but are of real economic value.[23] This definition of what constitutes a service industry is, however, incomplete and, therefore, partly misleading.

We found that many of the so-called service sector firms in our study produced and supplied *tangible goods* as well as intangible ones. For example, one of our engineering firms "hung" its consulting services around the supply of refurbished pulp mills, but definitely considered itself a service firm. Another provided their training services via hardcopy videotapes. In a similar vein, several of our manufacturers had started out as service firms that over time had invented products to solve problems they encountered, and found it more profitable selling the products rather than their services.

In addition to the firms in the sample, interviews were also conducted with both federal and provincial government officials in their headquarters, regional offices and abroad in foreign missions. Not only were we interested in discussing the programs they offered, but we also sought out their views on issues involved in exports and government assistance. Did they feel the programs and services were helpful? What problems had they experienced in trying to do their jobs? In addition to government employees, interviews were also conducted with trading houses, executives of "export clubs", and several major business associations. The results of those efforts are revealed.

Notes

1. Such policies as "The National Policy" and its successors have always had as their stated aim the maximization of investment and jobs in Canada. The way this has been pursued was to encourage investment both in the development and extraction of primary resources to sell on world markets and, where possible, to encourage investment in factories to service domestic markets.

2. The Autopact and the Tokyo Round of the GATT completed in 1978 have provided the major stimulus to the reshaping of the manufacturing process in Canada and the world.

3. Interest in the offshore area was particularly acute when the 200-mile economic zone was first pronounced. In addition, the rapid escalation of energy prices throughout the 1970s in combination with the continued demand for energy and energy related products made many energy projects seem more feasible in the short term. The "Major Projects Task Force" identified over 200 billion dollars worth of potential development before the advent of the 21st century. That, in combination with the proclamation of the 200-mile offshore economic zone led to buoyant expectations for employment and, more importantly, for the demand of certain products and skills in Canada. With judicious government assistance, the hope was that new industries would be created to supply the expected demand and that these new industries would be able to compete on world markets. For additional details see G.B. Doern, "The mega-project episode in the formulation of Canadian economic development policy," *Canadian Public Administration*, Vol. 26, No. 2, Summer 1983, pp. 219-38.

4. While the definition of what constitutes small can vary considerably, for this research, the determining factor was the number of employees. Firms with less than 100 employees were considered small while firms with less than 250 and more than 100 were deemed to be medium-sized.

5. The implications of exporting have been examined at significant times and places in the exporting cycle. Some have looked at the implications associated with the decision to export, namely what the firm did or should have done in preparation for exporting or in the development of foreign markets. For examples, see Douglas Tookey, *Export Marketing Decisions*, Harmondsworth: Penguin Education Books, 1975; Andrew Duguid and Eliot Jaques, *Case Studies in Export Behaviour*, London: HMSO 1971.

6. See S. Reid, "Information Acquisition and Export Entry Decisions in Small Firms," in *Journal of Business Research* 12, (1984) pp.141-57 and ____, "Impact of Size in Small Firms," in Czinkota and Tesar (eds.) *Export Management*.

7. Department of External Affairs, *So You Want To Export*..., Ottawa: Supply and Services Canada, p.3.

8. Tookey, *Export Marketing Decisions*; also "Factors Associated with Success in Exporting," in *Journal of Management Studies* 1 (March 1964); Duguid and Jaques, *Case Studies in Export Organization*; W. Bilkey, "An Attempted Integration of the Literature on the Export Behaviour of Firms," in *Journal of International Business Studies* (JIBS), (9 Spring/Summer, 1978); _____, and G. Tesar, "The Export Behaviour of Smaller-sized Wisconsin Manufacturing Firms," in *JIBS* 8 (Spring/Summer, 1979); T. Cavusgil, "Some Observations on the Relevance of Critical Variables for International Stages," in *Export Management*, M. Czinkota and G. Tesar (eds.) New York: Praeger, 1981; S. Reid and P.F. Rosson, *Managing Export Entry and Expansion: Concepts and Practice*, New York: Praeger, 1987; Jean-Emile Denis, *La PME et l'exportation*, Montreal: Gaeten Morin, 1984.

9. Kurt J. Miesenbock, "Small Businesses and exporting: A Literature Review," *International Small Business Journal*, Vol. 6, No. 2. January-March 1988, pp. 42-61.

10. Miesenbock, pp. 42-43. Miesenbock lists all the studies related to this research as well as indicating whether these confirm or contradict the importance of these factors in understanding export behaviour/success. Such an in-depth review of the literature was beyond the confines of this study and the reader is referred to Miesenbock's review for the individual citations. Many of the most relevant studies he cites are included in the bibliography which accompanies this study.

11. Miesenbock, p. 43. The last two items are particularly important with respect to Canada. For example, asking why some small firms chose to export out of a market of 250 million people is very different from asking the same of a small firm operating in a significantly smaller market area such as Canada. This is even more important when taken in combination with product, as in the case of some high-tech firms which face a small, often insignificant market in Canada, as we discovered during the course of our interviews.

12. Miesenbock, p. 45.

13. Miesenbock, p. 50.

14. La chambre de commerce de la Province du Québec, *REDEX, Recherche sur le potentiel d'exportation des enterprises québécoises*, Montreal: May 1977.

15. Jean-Emile Denis et collaborateurs, *La PME et l'exportation*, Montreal: Gaeten Morin, 1984.

16. Jean-Emile Denis, "The International Freight Forwarders and their Relationship with Small and Medium-Sized Manufacturing Firms," Proceedings, ASAC Annual Conference, Vancouver: University of British Columbia, 1983 and ____ and H. Mallette-LaFreniere, "Networking for Effective Export Performance by Small & Middle-Size Firms: a Canadian Perspective," University of Ottawa Working Paper 86-9. As well, see Government of Canada, *Promoting Canadian Exports: The Trading House Option*, November, 1984.

17. This original work was done as his Ph. D thesis. See S. Reid, *Export behaviour in small Canadian manufacturing enterprises—an empirical investigation*, Ph. D. dissertation, York University, 1981.

18. S. Reid, "Export Research in a Crisis," in *Export Promotion: The Public and Private Sector Interaction*, M. Czinkota, (ed), New York: Praeger, 1983; and "Managerial and Firm Influences on Export Behaviour," in *Journal of the Academy of Marketing Science*, Vol. 11, No. 3, (1983) and "Structure, Strategy and Performance: a transaction cost perspective," presented to the 2nd Open International I.M.P. Research Seminar on International Marketing, Uppsala, Sweden, September, 1985.

19. For discussions and applications of open-system and contingency theory see James Thompson, *Organizations in Action*, New York: McGraw-Hill, 1967; and, Paul R. Lawrence and Jay W. Lorsch, *Organisation and Environment*, Cambridge, Mass.: Harvard University Press, 1967. For references to "network" theories see note 21 below.

20. Tookey, *Export Marketing Decisions*, p. 27.

21. For examples of network theory see William M. Evan, "The Organization-Set: Toward a Theory of Inter-organizational Relations," in *Approaches to Organizational Design*, J.D. Thompson (ed.), Pittsburgh: University of Pittsburgh Press, 1966, pp. 175-91; and Howard Aldrich and David Whetten, "Organization Sets, Action Sets, and Networks: Making the Most of Simplicity," in *Handbook of Organizational Designs*, Vol. 1, Paul Nystrom and William Starbucks (eds.), New York: Oxford University Press, 1981, pp. 385-408. For a discussion of its promise for research in organizations see C. Perrow, *Complex Organizations*, 3rd edition, New York: Random House, 1986. For an application of this to SMEs and exporting see David Ford and Philip F. Rosson, "The Relationship Between

Exporters and their Overseas Distributors," in *Export Management: an International Context*, M. Czinkota and G. Tesar (eds.) New York: Praeger, 1982.

22. On these concepts see Philip Selznick's seminal work, *Leadership in Administration*, New York, Harper & Row, 1957; I. Adizes, "Organizational Passages: Diagnosing and Treating Life Cycle Problems in Organization,"*Organizational Dynamics*, Vol. 9, Summer, 1979, pp. 3-25; and J.R. Kimberly, "Issues in the Creation of Organizations: Innovation, Initiation and Institutionalization," *Academy of Management Journal*, Vol. 22, 1979, pp 437-52.

23. For a recent Canadian discussion on the economic and public policy importance of the service sector see *Background Notes on the Service Sector in Ontario*, Toronto: Ministry of Treasury and Economics, May 1986.

Chapter 2

The Decision to Export

I. Efforts to Explain Export Behaviour

Why do some firms export while others do not? Why are some owner/managers predisposed to look to foreign markets to enhance growth while others remain content to service the domestic market? Are there peculiar factors inherent in the growth patterns of certain firms or the personalities of individuals that lead to the adoption of export behaviour? When do firms decide to export? On what basis is the decision to export made? How are the initial export markets selected and what factors are considered and ignored? Why do these firms believe they were successful on the export market? Those questions, or other close derivatives, have formed the basis of much research into the export behaviour of firms.[1]

The dependent variables that have been previously examined for their possible influence on export behaviour have included: size, both in terms of employees and/or total sales; number or ratio of skilled employees; technology employed; sector or product involved; personality of decision-maker; managerial "slack"; market saturation or limitation; among others.[2] None of these have proven to be conclusive indicators of either a firm's propensity to engage in or subsequently to succeed at exporting.

We did not set out to test a specific hypothesis or to identify *the* factors which might be related to the decision to export. On the other hand, we were interested in identifying and exploring the most often expressed reasons which lay behind the decision to export. In part this interest was dictated by the need to explain subsequent behaviour such as market selection, information seeking, and so forth. We began by looking at the reasons which seemed behind the initial decision to export. Subsequently, we examined the various means of implementing this decision in the first and subsequent export markets.

Finally, we looked briefly at the interplay among the motivation for exporting, the approach taken to implement the decision, and the market selected.

II. Reasons for Exporting

1. *A Potpourri*

A multitude of reasons can be identified for why small and medium-sized Canadian firms sell their goods and services abroad. An introductory text on Canadian business offers the following rationales for exporting:

a. good sales and profit opportunities;

b. growth possibilities for a firm that has already reached its sales peak in Canada (a relatively small market);

c. lower per unit production costs as a result of longer production runs when export sales are added to domestic sales. (This is the logic behind the occasional decision by a U.S. multinational to grant its Canadian subsidiary a "world product mandate" whereby it produces a particular item—e.g., computer keyboard—for sale in all the multinational's markets around the world);

d. better use of production facilities if seasonal "slack" at home can be counterbalanced by seasonal demand abroad;

e. protection, through diversification, against falling sales at home caused by economic slowdown or increased competition; and

f. various forms of government assistance.[3]

A more recent survey of 250 manufacturing firms found that the main motive behind the decision to export was the desire to increase total revenues followed by a desire to diversify markets.[4]

In the course of our interviews, all these reasons were echoed. In addition, other reasons were also cited. These included *personal factors* such as meeting a new challenge, wanting to travel, or running into an old friend who facilitated an export order; *organizational factors* such as corporate takeover where the new owner was already exporting; and *technological factors* pertaining to the nature of the product, its market or industry—such as "the product was easily exportable," or "we had to buy parts overseas so we were familiar with the potential export markets," or, "computer software is a very international industry."

Through our interviews, we noted other distinguishing characteristics that led us to develop some more general classifications. We found there were three rather distinct reasons behind the decision to export. Table 2.1 provides a breakdown of reasons for exporting as these relate to manufacturing and service firms.

Table 2.1
Initial Perception of Role Played by Exports

	Reason for Exporting			
	Surplus	Expansion	Survival	Totals
Manufacturing	5	16	12	33
Service	6	4	10	20
Totals	11 (20%)	20 (38%)	22 (42%)	53 (100%)

The first and most frequent reason given was that, right from the start-up of the firm, exporting was considered to be essential as the domestic market was perceived to be too small to support the quantity of goods or service offered.[5] For 22 firms (42 percent) in our sample, this need to export to survive was at the heart of the decision to export. This was particularly the case with many "high-tech" firms.[6] The second category consists of those firms who viewed exports as a desirable path for subsequent expansion of an already viable enterprise. This reason was the motivating factor for 20 (38 percent) of the firms. The third and final category were those firms that used exports on an "as needed basis" for purposes such as smoothing out fluctuations in demand or absorbing unexpected surpluses.

2. *Export Volume, Motivation and Risk*

As might be expected, there is a great deal of overlap, but not a one-to-one relationship between those categories which relate exports to total sales and the role exporting was initially perceived to play in the firm. Tables 2.2 and 2.3 show the frequency for each group in the services and manufacturers sector. From this it can be seen that export activity or volume were highest among "survival" firms and lowest among the "surplus" firms. There are, however, other differences worth noting among the groups. Those firms giving "expansion" as the predominant motive formed the largest group among the manufacturers, while "survival" followed by "surplus" were the main motives among service firms.

There was a discrepancy in the views of whether firms were increasing or decreasing risk in exploiting export markets. In general, the literature, both academic and government, tends to emphasize the riskiness and difficulties surrounding export marketing. The traditional view of exporting is that it is subject to greater novelty, uncertainty and problems because of geographical distances, cultural and governmental differences and other factors influencing international trade. "Compared with the home market," one book typically states, "trading abroad is more complex, more uncertain, and more influenced by political factors."[7]

Table 2.2
Initial Perception of Role Played by Exports by Export/Sales Ratio

Manufacturing Firms

Export/total sales	Surplus	Reason for Exporting Expansion	Survival	Total
25%	3	3	0	6
25-49%	2	2	0	4
50-74%		7	4	11
>75%		4	8	12
Totals	5	16	12	33

Table 2.3
Initial Perception of Role Played by Exports by Export/Sales Ratio

Service Firms

Export/total sales	Surplus	Reason for Exporting Expansion	Survival	Total
<25%	3	1	0	4
25-49%	2	1	1	4
50-74%	1	1	3	5
>75%		1	6	7
Totals	6	4	10	20

Trading abroad may truly expose a firm to more risks, but it is not always perceived in that light. A number of business representatives we interviewed stressed that the decision to export was made with the hope of reducing the real or potential risk and instability facing their enterprise. One owner told us that by exporting he was "spreading the eggs into several baskets," that is, he hoped to reduce the risks of survival and development of his business. Another entrepreneur remarked, "exporting hasn't been any riskier for us, once we knew the ropes."

Many persons added that the subsequent experience had supported the validity and wisdom of the decision to go ahead with the development of export markets. Exporting was seen to have cushioned them somewhat from the effects of declining sales in Canada during the last recession in the early 1980s. For firms that operate in very selective "niches" especially in the high-tech sectors of electronics and computer software, exporting is seen to minimize the risk by broadening the client base across economies.

Several firms in all categories also commented that while the risks may be slightly greater, the profits were higher due to both reduced costs of production and the ability to extract a higher cost in export markets. Exporting, therefore, was consistent with profit maximisation which was seen as the ultimate means of reducing the risk of business failure.

III. Approaches to Exporting

In our sample there are at least two broad groupings for exporters—those that see export sales as essential from the birth of the enterprise and those who, at some time in the life of the firm, arrive at the decision to pursue export markets. The "survival" category clearly belongs in the first group, whereas the surplus and expansion groups belong to the other. We were interested in whether there were differences in the way potential exporters entered into the exporting world. Thus, our initial question was a double-barrelled one, that is, not only why, but how, the firm began exporting. What process or sequence of steps did the firms actually go through when deciding to export and selecting markets?

The answers to the second part, how firms entered into export markets, suggested a slightly different typology of the ways in which a potential exporter can approach or be introduced to foreign markets. In our sample we detected four distinct approaches which proved useful in helping us to interpret and to understand our observations. We label the four approaches: the "comprehensive-rational" approach, the "entrepreneurial-selective" approach, the "haphazard approach" and, for lack of better words, "opportunity knocks".

1. *The Rational Model*

The overriding assumption concerning decision-making and behaviour in a firm is "rationality." Both public policy and academic literature expect and advise firms to enter into exporting rationally if not cautiously. There are many who would argue that public policy must not only assume rational behaviour, but reward or shape it as well. After all, implicit in this model is that there is a correct way to proceed, certain rules and procedures to be followed, which, while not ensuring success, are expected to help minimise the chances for failure. Similarly, if one has to teach someone to do something, it is preferable that what is taught be the proper—not to say the best—way to go about it.

The *rational-comprehensive approach* is built around the "if . . . then" statement. If you wish to export, then you should do the following. This approach, according to its many advocates, can be applied to several strategic business issues—deciding to export, selecting foreign markets, planning operations in those markets, and selecting distribution methods for trade abroad. The main characteristics of this rational-comprehensive approach include: the clarification and assessment of corporate goals as a prerequisite to analyzing exporting and determining its place in the overall mission of the firm; a comprehensive search process and exhaustive analysis stage; and the use of modern management science tools such as mathematical techniques and decision-tree models for the quantification of factors bearing on the export decision.[8] The specific details and ambitious scope of the rational-comprehensive approach to export decision-making have been well described by Tookey. He states:

> There is a sequence of decision-making, begun in the board room, and continued by marketing and export managers, and their staffs. The decision to export or not will be taken at the highest level in the firm. Marketing management will decide which markets are to be selected for the initial effort. Each market will be separately considered, and a marketing plan prepared showing which segments of the market are to be aimed at; what the marketing mix of products, prices, promotion and distribution is going to be; the timing and programming of marketing activity; the use which will be made of services and intermediaries; and the investment which will be required in the market. And also how the success of the whole policy is to be evaluated.
>
> The decision to export is a major commitment to enter a new field of business, and should clearly be taken in the most systematic way possible. This will involve the provision of information, its analysis and the generation of alternative courses of action and the best possible estimates of the likely results of each of these courses.[9]

Obviously small firms are not structurally differentiated to the extent suggested by the above quote. Nonetheless, the approach would expect those responsible for guiding the firm to wear the number of hats necessary to the performance of functions. More specifically this entails finding answers to the following questions:

> What are its (the firm's) resources—in financial terms, in design and production, in technology and managerial and other skills? What are the characteristics of its home market? Are they unique and replicated abroad, or are there similar market segments in other countries? To what extent have the products, services, and marketing policies of the firm become highly specialized and adapted to the home market? To what extent does the firm's adaptation to this market handicap it in adapting to the different requirements of the overseas markets? Obviously the greater the adaptation and the greater the specialization the less favourable are the indications for multi-marketing policy.
>
> There are also questions to be answered about the firms staff—do they have the knowledge and skills required for exporting, e.g. knowledge of overseas markets, experience of exporting, experience of the techniques of marketing across frontiers, the ability to speak foreign languages? What about the attitudes; do these reflect a parochial or cosmopolitan background? How practicable would it be to begin exporting with existing staff, or would recruitment and retraining on a large scale be required?
>
> There is also the question of the nature of the organization. There are types of organizations which resist change, which are rigid and inflexible and where it is difficult to introduce new policies . . . . It is important to establish whether the firm's organization is flexible enough to make a major change of this kind.
>
> There is another aspect of the decision to export or not. This concerns the degree of commitment in the firm. The decision should not be put in the

> form of a simple 'go' or 'no-go'. It should include an allocation of resources to marketing abroad appropriate to the commitment and the scale of operations envisaged.[10]

Only two firms that we interviewed could be said to have followed the rational-comprehensive model. One, a high-tech firm, had a dominant chief executive officer who was "strategically minded" and employed systematic planning procedures. The other, a mapping and survey consulting firm, found this approach suited to, if not demanded by, the environment in which it operated. In their line of work, bidding procedures were elaborate, lead times were measured in years, feasibility studies were a requisite and certain types of information and analysis were required by the host governments, international aid agencies and development banks.

2. *Diminishing Rationality*

Beyond these cases, we found that the rational-comprehensive model did not convey the nature of the export decision-making process followed by small and medium-sized firms in Canada. There are too many practical limitations on the rational-comprehensive approach. Firms discover that hard data on export markets are often difficult to locate, expensive to obtain, often incomplete or outdated and sometimes non-existent. The cost, both time and money, necessary to generate, collect and analyze the data and consider all the export possibilities is too high. The analytical demands made by the rational approach may exceed the skills and capacities of the average entrepreneur and by the time the process is completed, much of the information could be out of date, the market may have changed or competitors may have already moved into the area.

"In rapidly changing international markets [as is the case with electronics or computer software], a shorter, if less perfect, decision-making process is required."[11] Trying to follow the rational-comprehensive method, therefore, would be irrational for most firms in most market situations, with the costs involved in following the required steps exceeding the expected return, or far more seriously, endangering the possibility of even realising a return.

In light of this, many of the firms in our sample performed a limited and non-comprehensive analysis of potential trade markets abroad. Various alternative markets were ignored, avoided or simply ruled out. The export market decision process was simplified by relying much more on qualitative analysis, information derived from: past experience (several entrepreneurs worked at another related firm in the industry before starting or joining their present business); contacts and word-of-mouth at conferences and trade shows; from suppliers, actual or potential customers and competitors; direct trips to an area; government trade commissioners; and advertising or press releases. We have labelled this approach, which is widely practiced by small and medium-sized firms, the "entrepreneurial-selective" approach.[12]

While the rational-comprehensive or entrepreneurial-selective exporter seeks to minimize risk by maximizing information and analysis, the exporter employing the *haphazard approach* seeks to minimize the investment required—particularly with regard to the analysis of data—to succeed in the export markets. To proceed in this manner implies little or no pre-analysis of potential markets as it would appear that the primary goal is to externalize the cost of analysis, i.e., to shift the burden to those outside the firm. It generally involves recruiting distributors or agents anywhere in the world. This is usually done through advertising, word-of-mouth or other means such as soliciting referrals from trade commissioners. Its central assumption is that anyone on location wishing to be an agent/distributor or end-consumer of a product is aware of local conditions, availability and price and thus provides an adequate indication of market potential. As the following tables show, roughly one-fifth of our sample proceeded to develop export markets in this manner.

"*Opportunity knocks*" describes a situation where a firm with or without any predisposition towards exporting but without any effort on their part is suddenly directed towards a market through the actions of a buyer or other intermediary. Usually the only decision is whether to sell or not to sell, sign or not to sign, and so forth. "Opportunity knocks" played a role for 13 of the firms in our sample whether these exported for reasons of survival, expansion or surplus.

With these approaches to exporting in mind, the question that arises is whether one can posit a relationship between the reason for, and the approach adopted towards, exporting. For instance, do those firms that perceive exports to be essential to their survival approach the exploration of markets in a more "scientific" and purposeful manner than those who see exports as an opportune means of expansion? While we might posit this to be the case, we would have to weigh this against the very limited resources likely to be available to these firms to support export activities, whether this be in terms of more managerial time to devote to the exploration of opportunities, more money to support market research, or a more visible track record on which to trade.

Of course firms often attempt to market their products in more than one market and may employ different approaches in different markets at the same or different times. Several markets may be approached simultaneously or, marketing efforts can be separated by months or years. Where firms had entered more than one market over time, we felt it useful to give some indication of the approach employed. These are referred to as "*Subsequent Markets*". In addition, however, the number of markets initially approached did exceed the total number of firms in the sample as some firms pursued initial export opportunities in more than one of the markets identified over the same time period. Several of the export market categories we employ below can account for a broad marketing strategy (e.g., "Developing Countries" or "World Wide"). In the few cases where firms pursued simultaneous marketing strategies that did not fit the categories (e.g., the U.S. and Europe) the decision was taken to classify the least significant market, as measured by the volume of exports to that market, as a *subsequent market*. That is, these efforts are found among the figures identifying the approach used by firms that attempted to develop further markets subsequent to their initial entry into exporting.

IV. Pursuing Markets

1. *Major Market and Means for 22 'Survival' Firms*

Twenty-two firms in the sample reported the need to export their products or services virtually from the day of start-up in order for the firm to survive. Twelve of these were manufacturing firms, eight of which manufactured high technology electronic devices. Ten were service firms, three of which worked in the area of communications and three others in the area of remote sensing/map-making. For eight of the 22 firms, the Canadian market accounted for less than 10 per cent of annual revenues.

The vast majority of the firms that perceive the need to export from the start in order to survive tended to follow the "entrepreneurial-selective" model of export development. That is to say, selected markets were chosen and explored, potential clients identified, means of reaching and serving these clients assessed. However, even among those firms which recognized the need to export, there were some who approached exporting in a haphazard fashion. In addition, there were those occasions where openings to foreign markets appeared without planning or warning through chance meetings with key actors or through direct action by interested parties outside the firm.

Table 2.4
Destination & Means of Selection for 22 Firms with Initial Need to Export

	Destination							
Method of proceeding	US	UK	Europe	Far East	Mid East	Developing	WW	Total
entrepreneurial-selective	(2) 11*	(1)	(4) 2	(2)		(1) 4*		(10) 17
haphazard	3	(1)	(3)	(2)		(1)	1	(7) 4
opportunity			(2)			1		(2) 1
subtotal subtotal	(2) 14	(2)	(9) 2	(4)		(2) 5	1	(19) 22
totals	16	2	11	4		7	1	41

Numbers in brackets ( ) indicate subsequent development of markets
Number of markets is not equal to number of firms
*Number includes firm that used rational-comprehensive approach.

Not surprisingly, nearly all of the manufacturing firms looked to the U.S. (11 of 12) as the most promising market. A distant second was Europe/UK. Several firms had put considerable effort into developing the European market either as a first or subsequent market only to see their success fade away with the steady appreciation of the U.S. dollar and the onset of the world wide recession in the early 1980s.

The majority of service industries that relied on exports for survival directed their marketing efforts towards the developing countries (6 of 10) with the U.S. and Europe tied for distant second (2 each). Table 2.4 gives a breakdown of export destination and means of developing these markets for the 22 firms perceiving the need to export from the start of production.

2. *Twenty Firms Exporting to Grow*

Many manufacturing and service industries do not start out with a view that exports are necessary to their survival. After having established themselves in the domestic market, 20 of our sample adopted exporting as a means for attaining greater growth. That should not be interpreted as saying that the firms involved all took a conscious and studied decision to enter the export markets and then proceeded to thoroughly investigate potential markets. Table 2.5 indicates a more mixed picture.

In comparison to the survival firms, a smaller proportion of this group undertook the search for foreign markets in the entrepreneurial-selective mode. Only nine (45%) of the 20 firms employed a entrepreneurial-selective approach in seeking their first export experiences. This is not what might be expected. For, while exporting is obviously not a matter of "life or death" to these firms, it seems reasonable that these firms would have greater resources at their disposal and hence would be more likely to pursue exports in a methodical way. It is even more surprising when one considers that only four of the firms that sold in multiple markets followed the "entrepreneurial-selective model" throughout. The others demonstrated other possible combinations of opportunity knocks," haphazard, or entrepreneurial-selective" approaches.

The second most popular approach to exporting was through seizing an opportunity that arose. Six firms (30%) began exporting by being able to capitalize on an opportunity that arose.

Once again, the majority of manufacturing companies (13 of 16) had the U.S. as their major export market, and, three of the four service industries looked solely to the U.S. market as the source of opportunities for expansion. The U.S. figured prominently in all three approaches to exporting.

Table 2.5
Destination & Means of Selection for 20 Firms Seeking to Expand Destination

Method of proceeding	US	UK	Europe	Far East	Mid East	Developing	WW	Total
entrepreneurial-selective	(2)	(1)	(5)	(1)	(1)			(10)
	6	1	1			1		9
		(1)	(1)				(1)	(3)
haphazard	4			1				5
		(1)	(1)		(1)			(3)
opportunity	4		1			1		6
subtotal	(2)	(3)	(7)	(1)	(2)		(1)	(16)
subtotal	14	1	2	1		2		20
totals	16	4	9	2	2	2	1	36

Numbers in brackets ( ) indicate subsequent development of markets
Number of markets is not equal to number of firms

3. *Some that Export if Necessary, but . . .*

From Tables 2.2 and 2.3 it can be seen that 11 firms in our sample initially viewed exporting as a means to absorb surpluses or smooth out troughs in the business cycle. Table 2.6 shows that only three of the 11 were prepared to invest much in the initial development of foreign markets by pursuing the entrepreneurial-selective process of market assessment, while a greater percentage of this group entered into exporting by the "opportunity knocks" route.

It is important to recall that the classification is based on the initial reason for entering into the export markets. For most of the firms in this group, export markets remain a place to sell goods and services surplus to domestic requirements. However, success abroad, as shown by the ratio of export to total sales (Tables 2.3 and 2.4) has made four of these firms, two service and two manufacturing, highly dependent on foreign sales. Only one of those employed the entrepreneurial-selective approach in seeking markets to sell its surplus goods. The other three got involved through chance requests from outsiders.

Table 2.6
Destination & Means of Selection for 11 Firms Exporting Surpluses

Method of proceeding	US	UK	Europe	Far East	Mid East	Developing	WW	Total
entrepreneurial-selective	2					(1) 1		(1) 3
haphazard			1	(1)	1			(1) 2
opportunity	(1)		1		1	3*	1	(1) 6
subtotal	(1)			(1)		(1)		(3)
subtotal	2		2		2	4	1	11
totals	3		2	1	2	5	1	14

Numbers in brackets ( ) indicate subsequent development of markets
Number of markets is not equal to number of firms.
* Two of the three firms had used an entrepreneurial-selective approach in other markets without success. These efforts are not reflected in the table.

V. On Motivation and Method

It may seem artificial to separate the motives for exporting from the approach adopted in finding foreign markets, particularly when it comes to the fourth category, "opportunity knocks". It is fair to ponder whether one can ascribe a reason beyond, "I was asked," if that was what occurred. On the other hand, can a firm that was established with a specialty in Third World development be labelled as exporting for "surplus" or "expansion" simply as a consequence of a chance encounter with a potential client? Clearly not.

There are, of course, some grey areas, particularly given that the reasons for exporting and the circumstances at the time were based on recollections which are always subject to post-decision rationalization. On the whole, however, we remain satisfied that the motives were as stated and that these were separable and discernible from the method of market development. What, then can we say about small firms and the initial decision to export?

In general, we conclude that perception of market opportunities, or, more precisely, domestic market limitation was a major factor both in the decision to export and in the resources allocated to the marketing approach. Many firms export because they perceive they must if they are to exist, and if they have to succeed at exporting, they devote more effort and resources in locating appropriate offshore markets. Conversely, firms that do not depend on exports for their survival are more likely to adopt a cavalier attitude in their attempts to develop foreign markets.

Both of these assertions seem supported by the frequency distributions shown in Table 2.7. A percentage breakdown by method of proceeding and by motivation for exporting is provided in Table 2.8. Using entrepreneurial-selective-surplus as an example, this table shows, horizontally, that of all the firms using the entrepreneurial-selective approach, 10 per cent did so to sell surplus goods or services. Vertically, it shows that of all those firms exporting to sell surplus goods, 27 per cent employed an entrepreneurial-selective approach.

While some firms did change their approach in the subsequent development of new foreign markets, many others did not. It is worth noting, however, that all but one of the manufacturing firms and two of the service firms that began exporting through the "opportunity knocks" approach have developed subsequent markets using either of the other two approaches. "Opportunity" did not knock twice for any firm.

Sample limitations do not allow us to make an assessment on whether nationality or culture are a major influence on the propensity to export. Nationality is a complex factor which can bring market experience, family contacts and many other factors into play. These can shape perceptions (accurately or inaccurately) and influence export decisions in a positive or negative direction. Nationality/culture was mentioned several times as a factor in the selection or rejection of markets, most notably with respect to Europe and the U.K.

Nationality was cited as a reason for selection of markets in three cases. In one case, it provided ease of personal access to a market, the freedom to come and go. In another, it provided personal and family contacts used to develop and exploit markets. In the last, it was cited merely as providing necessary background information on "what would work" in that market.

Nationality also was cited as a factor for not pursuing specific markets in two cases because the chances of success were judged to be too slim, or there was simply a wish not to return or to compete against one's compatriots. In the end, we did not find that certain "unknown" factor that encourages a firm to export. In fairness, we did not expect to. What we found, in some cases, were persons who wanted to produce certain goods and, in order to fulfill their desires, knew they had to sell much of what they produced outside of Canada. We noted the strong link between the need to export to survive and the seriousness of the approach. The new firms just starting up have little choice in the matter even though their managerial and financial resources might be severely taxed by these efforts. On the other hand, the older and more established firms had more resources but less inclination to approach foreign market development in a more planned and controlled manner. We also found many others who wanted to expand and looked to exports to provide them with that opportunity.

Table 2.7
Motivation for Exporting and Means of Market Development/Frequency

Method of proceeding	Surplus	Expansion	Survival	Total
entrepreneurial-selective	(1) 3	(10) 9	(10) 17*	(21) 29*
haphazard	(1) 2	(3) 5	(7) 4	(11) 11
opportunity	(1) 6	(3) 6	(2) 1	(6) 13
subtotal subtotal	(3) 11	(16) 20	(19) 22	(38) 53
total	14	36	41	91

Numbers in brackets ( ) indicate subsequent development of markets
Number of markets is not equal to number of firms
* Two of the firms pursued the rational-comprehensive approach.

Table 2.8
Initial Motivation for Exporting and Means of Market Development/Percentages

Method of Proceeding	Surplus	Expansion	Survival	Total
entrepreneurial-selective	10% 27%	31% 45%	59%* 77%*	100%
haphazard	18% 18%	45% 25%	37% 18%	100%
opportunity	46% 55%	46% 30%	8% 5%	100%
total	100%	100%	100%	

* percentages include two firms that used rational-comprehensive model

Notes

1. For examples see T. Abdel-Malek, *Managerial Export Orientation: A Canadian Study*, London, Ontario: School of Business Administration, University of Western Ontario, 1974: ________, "Export Orientation in Small Firms," *American Journal of Small Business* 3 (July 1978); W. Bilkey and G. Tesar, (1977); T. Cavusgil, "Some Observations on the relevance of Critical Variables for International Stages," in *Export Management*, M. Czinkota and G. Tesar (eds.), New York: Praeger, 1981; S. Reid, (1984a) "Market Expansion and Firm Internationalization," in International Marketing Management, Erderner Kaynak (ed.), New York: 1984; ________, (1981) "Impact of Size in Small Firms," in *Export Management*, Czinkota and Tesar, (1981); and ________, (1983) "Export Research in a Crisis," in *Export Promotion: The Public and Private Sector Interaction*, M. Czinkota (ed.), New York: Praeger, 1983.

2. For a good overview see Reid, (1981, 1983, 1984a).

3. Maurice Archer, An Introduction to Canadian Business, Fifth Edition, Toronto: McGraw-Hill Ryerson, 1986, p. 641.

4. David Balcone, Choosing Their Own Path: Profiles of the Export Strategies of Canadian Manufacturers, Ottawa: Conference Board in Canada, International Business Research Centre, 1986.

5. "Foreign expansion becomes a feasible strategy for firms when domestic markets are unable to sustain sufficient economies of scale and scope. It is not surprising, then, that many firms automatically include exports in their initial market plans." S. Reid, (1984a) p. 200. Reid bases this statement on work done by I. Litvak and C. Maule, *Canadian Entrepreneurship: A Study of Small Newly Established Firms*, Ottawa: Department of Industry Trade and Commerce, (1971).

6. If these firms have one advantage, it is that they do not have to amend a well established range of products and goods or corporate sales policy, or makes changes to existing structural or personnel arrangements in the marketing area. For such firms, the decision to export does not require radical alterations to their marketing policy; it is their marketing policy. On the other hand, these firms are often not as far along the business marketing or management "learning curve", and are, therefore, more prone to mistakes in trading both at home and abroad than other firms that have experienced their "teething pains" in a more "manageable" environment closer to home. This has important implications for business policy and management as well as public policy.

7. Douglas Tookey, *Export Marketing Decisions*, Harmondsworth: Penguin Educational Books, 1975, p. 33.

8. See for example Hamid Eteman, "A Decision Model for Exporting from Canada," in K.C. Dhawan, Hamid Eteman and Richard Wright (eds.) *International Business: A Canadian Perspective*, Don Mills, Ontario: Addison-Wesley, 1981, pp. 164-87.

9. Tookey (1975) p. 38.

10. Tookey (1975) pp. 48-49.

11. Tookey (1975) p. 38. Examples of sectors cited are ours.

12. N.J. Fodor, "Canadian Small Business and International Markets," in K.C. Dhawan, Hamid Eteman and Richard Wright (eds.) International Business: A Canadian Perspective, Don Mills, Ontario: Addison-Wesley, 1981, pp. 202-08. For other discussions regarding sources and uses of information in the exporting process see Jean-Emile Denis and Daniel Depelteau, "Market Knowledge, Diversification and Export Expansion" in *Journal of Business Studies*, Fall, 1985 and, for another Ontario perspective see, R. Seringhaus, "The Role of Information Assistance in Small Firms' Export Involvement" in *International Small Business Journal*, Vol. 5.2, Winter 1986-87.

Chapter 3

Following Through

I. Exporting: An Art or a Science?

1. *Experiential Learning*

Is successful exporting, like so many other human endeavours, an art, a science, or plain good luck? What is there to be learned about servicing foreign markets and where does one have to go to find this out? One can quickly realize the extent of the information that could (or is that "should") be analyzed and digested to better the odds of success. A glance at the mountain of information strongly hints at the distinct possibility for "analysis paralysis" to set in. For many in our sample, including those employing the "entrepreneurial-selective approach," the need for information could be closely related to what was thought necessary. That, in turn, was sometimes translated to "Ignorance is bliss" which it often was so long as, in the end, "What you don't know, won't hurt you,"—*didn't*!

Our interviews convinced us that few, if any, people could know all the rules for one, let alone all the countries. Many of the rules which must be complied with are only finally encountered and inculcated through experience, either one's own or that of others. Even then there are pitfalls as, at times, the world seems full of contradictory truths based on different experiences. Unfortunately, exporting seems to open up a number of areas where discretion plays a major part in the outcome and, consequently, often makes the past an unreliable guide to the future.

Adequate marking of products going into the United States is just one of several illustrations encountered. "The origin of all products entering the United States must be clearly marked to precise specifications," says one person. "I've been shipping to the States for years, and my exports are only marked on the containers," says another.

One might think that the issue of "markings" is a fairly easy one to check. Yet, several firms had to find out the hard way through the experience of having important shipments turned back at the border by a customs inspector going "by the book." Subsequently, all shipments would be properly identified as, "Made in Canada." It remained for another customs inspection to determine whether such markings were in the appropriate place, of suitable quality, and likely to be still visible to the final purchaser! The ambiguity of the situation is reflected in government handbooks which sets out the conditions an exporter may be required to satisfy.

> Generally, all goods imported into the U.S. must be legibly and conspicuously marked in English to identify their country of origin to the ultimate purchaser in the United States.
>
> The use of stickers or tags is permitted if used in such a manner as to be permanent, unless deliberately removed, until receipt by the ultimate purchaser.
>
> Certain small instruments and utensils must be marked by die-stamping, cast-in-the-mould lettering, etching, engraving or by means of metal plates securely attached to the articles.
>
> The U.S. Customs Service may exempt certain articles from this marking. In such cases, the container must be suitably marked.[1]

Though the Tariff Affairs Division "has developed an in-depth knowledge of the interpretation and implementation of U.S. tariffs and regulations related to access for imports into the U.S. market," none of our sample indicated that they had been able to tap this expertise with any success.[2]

2. *Finding the Customers*

Where does one begin in an analysis of export possibilities? Quite obviously, the ability to sell in a market will depend on price. Price in an area will depend, among other things, on transportation cost, which in turn will depend on volume of goods shipped by the firm and perhaps by general traffic patterns to and from an area. One could, we assume, spend a lifetime plotting out strategies to cope with the intricacies of reaching various markets —and never quite get around to exporting.

Not many of our sample were bemused by the situation confronting them. They, like the caterpillar in Alice's Wonderland, knew that the best place to begin is at the beginning. For most of our sample, somewhat paradoxically that meant at the customer-end of the chain. That is, many firms began the run through the export maze by locating customers, in an entrepreneurial, haphazard or opportune fashion as the case might be, working backwards to the firm from there. The main advantage of this approach is that it put some boundaries on the problems to be solved in reaching a stated market at a competitive price.

Several different ways exist for locating potential customers or distributors. Many of our firms chose to let the customers identify themselves. This merely required the potential exporter to increase the visibility of the firm's products in the marketplace; the most popular means of which was to participate in an international trade show.

Trade shows offer many attractive features for the potential exporter. Whether there as an exhibitor or merely a visitor/spectator, they provide a forum for assessing one's products against those of the competition, and of talking to persons who sell goods in the same or similar markets and who might be more seasoned exporters. Most importantly, shows serve as a major marketplace for meeting potential clients or persons seeking to become local agents or distributors. A significant proportion of our sample could trace initial or subsequent exporting success to trade shows they had attended.

Another avenue for potential exporters is the printed media, in particular trade journals. Many of our sample relied extensively on these as a means of keeping abreast with product developments and gauging their competitive position. And many used these same journals as the first or principal means of reaching potential clients through advertisements of their own.

Government sponsored trade missions are another means of bringing the producer together with potential agents or end-users. This approach was more often employed by firms developing secondary export markets. That this was so is more likely a reflection of who gets chosen by governments to go on these missions, that is, usually those who have already demonstrated a capacity to export. Nonetheless, trade missions had succeeded in forging links helpful to export sales for new exporters.[3]

Most of the firms employing the "entrepreneurial-selective" mode selected and approached prospective clients in a more proactive and analytical fashion. Using whatever materials as seemed appropriate or available, possible markets were identified and within these, potential customers pinpointed. After selecting a region or country, letters would be sent and subsequent visits to potential clients in the area arranged.

Government posts abroad were instrumental in helping firms to choose markets and to locate potential customers, distributors or agents. Trade commissioners were usually prepared to provide an initial assessment of market potential for a firm's products and supply information on the present source, selling price and methods of distribution of similar or identical products. They would also develop a short-list of potential distributors and provide some advice in negotiating with these. Such services were primarily extended to those firms whose approach to market development appeared to be more or less rational. We will have more to say about the quality of services offered by Canadian and provincial foreign missions in Chapter Six.

Lastly in our sample were those who had the customers just appear at their door, as it were, asking whether the firm could provide their wares in a certain country. These firms, like many others in our sample discovered that often the easiest part of exporting was finding someone willing to take your goods. It was the part in the middle, when it left the exporting firm and headed toward the importer, that could prove so difficult. It was here that, whether art or science, a measure of good luck, of "being in the right place at the right time" could prove useful.

II. The "Jam Sandwich" Theory of Exporting

"Perhaps the best analogy to use in describing exporting is a jam sandwich," suggested a participant during one of the more animated interviews. One slice of bread represented the exporter, the other slice of bread the foreign customer, and in between, were the sticky parts. The sticky situations ranged from the exporter wanting to sell something to a buyer in Brazil who was unable to obtain permission to import the goods into the country; to another firm wanting to sell something to China but unable to get a permit to export the goods from Canada. In between these insurmountable problems of absolute restriction lay a series of other problems that could confront the novice or the experienced exporter.

Not all the firms in the sample encountered great difficulty in selling their goods or services abroad. In fact, for many of the firms, exporting was reported to be almost as easy as selling next door. Some of this was due to blind luck; some to good judgement. The success of many others depended on their ability to cope with the obstacles that were thrown up as one tried to move the goods from the firm's door to the obliging customer.

1. *Foreign Receivables and Canadian Banks*

One of our pretest interviewees made the claim that if we ranked all the problems which exporters could face, the financing of export sales would account for about 60 per cent of these. With respect to the manufacturing sector, financing was definitely the most common "jam" of exporting. The problems in this area were many and varied. Closest to home, the most common problem was the inconsistent approach adopted by many of Canada's chartered banks in financing foreign receivables. This may speak much of the autonomy of bank branches to respond to local conditions. But it also says more of the lack in overall understanding of exporting within Canada's banking community.

One of the federal government's publications extolling the virtues of exporting to the United States suggests:

> Canadian suppliers can take advantage of the fact that many U.S. firms do not regard Canadian products as "foreign" and consequently buy and invoice them through domestic purchasing departments.[4]

For many firms, this is a mixed blessing. Yes, it is considered good fortune not to be considered "foreign" in the U.S. market. Indeed, the advice offered by many of the successful exporters to that country, as well as governments, is to do everything that would help to make the border invisible to potential American purchasers. Some firms set up warehouses just over the U.S. border and maintain a U.S. postal address to reduce the possibilities of appearing "foreign". Along this vein, most firms exporting to the U.S. sell their goods on "open account" as their U.S. customers expect this and could receive similar terms from their domestic suppliers.

Regrettably, not all branches of Canadian banks go along with this concept of an invisible border. To some of them, the border into the U.S. more closely resembles another "Iron Curtain"—at least so it would seem from their attitudes to receivables from that country. Whereas one branch of a major bank would accept U.S. receivables on the same footing as those from Canadian establishments, another branch of the same bank might insist that the receivables count for 50 per cent less than a debt owed by a Canadian firm. Yet still another might not allow any portion of U.S. receivables as collateral to cover operating loans.

Some might argue that the difference is not related to the domestic versus foreign receivables. Rather, it reflects concern over the credit-worthiness of the purchaser, whether domestic or foreign. However, in those cases where the restrictions on receivables existed, these appeared to be independent of the credit-worthiness of the U.S. firm. Further probing showed that in the cases at hand, the disallowed receivables included orders from blue chip communication or computer companies such as IBM or state utility companies where credit-worthiness could not have been an issue. To underscore this point, some of the banks in question did not even consider differentiating among the various U.S. customers—they all counted the same. Nor were they seemingly related to the experience of the Canadian firm in exporting to the U.S. or the length of time the U.S. firm had been a regular paying customer. It was just "branch policy."

For firms that exported only a small proportion of their production or who could finance receivables from retained earnings, this attitude from their bank could represent little more than a minor inconvenience. For others, such as minimally capitalized, highly export dependent firms, it meant a scramble either to find a bank with a different attitude toward U.S. receivables or to locate other resources to finance these sales for 30 to 90 days. Here, we are only considering the financing of goods already produced and delivered and awaiting payment from credit-worthy customers. Several more of our firms had even greater difficulties trying to finance expansions (either capital or labour) to meet existing or potential customer orders in the U.S. market. That, however, leads to comparisons with respect to the finance of plant expansion for export as opposed to domestic sales which due to the data collected, cannot be assessed.

What is disconcerting about the attitude towards receivables is that there would appear to be none of the "major" chartered banks in Canada immune from such decisions at the branch level. Nor were such attitudes confined to the small branches in the "backwoods" of Canada, or to a time, say 10 or 15 years ago, when export financing at branch level was perhaps less common. These positions were still in evidence in the major centers of Toronto and Montreal in 1986.

Though it may have been time consuming and unsettling, fortunately for several in our sample, they were able to locate alternative sources of finance when the restrictions on U.S. receivables proved too limiting. A visit to another bank (in the major centers these were quite often "B class" foreign banks) frequently rectified the problem. For two of our sample, government assistance through the Ontario Development Corporation saw the companies through the transition years of considerable export growth before another bank (both U.S. "B" banks) came into the picture.

Other financing problems were related to the absence of "hard currencies" to finance purchases. Several firms in our sample had invested considerable effort and resources negotiating sales in Third World countries only to find that, in the end, the money could not be found for—or in some cases, legally spent on—the goods or services on offer. Others who had successfully developed markets saw these disappear as happened when the recession dried up the foreign reserves of poorer nations and when the ensuing collapse in the price of oil and subsequent currency shortages sharply curtailed other markets. Clearly, these problems rested with the finances of the importing countries.

2. *Bettering the Payment Odds*

In many respects, the problem of financing is greater for U.S. sales where the requirements for special purchasing or financial arrangements are not recognized. When doing business in other parts of the world, the need for further guarantees of payment, at least in the initial stages, is more widely recognized and accepted. The standard means of payment is the "Irrevocable, in some cases, *Confirmed* Letter of Credit" (LC).[5]

Fortunately, for many small firms, the areas where one would use LCs to conduct transactions would usually lead one to employ a freight-forwarder to ship the goods to these markets.[6] And, since transportation costs were often, but not necessarily, an important part in the determination of the sale price, or even if they weren't, since LCs usually impose conditions which involve the shipper, freight-forwarders often got involved early on in the process. Because of this, freight-forwarders were singled out by some firms as a source of much helpful advice on the conditions which had to be met or should be originally specified to ensure timely payments.

Unfortunately, some of firms learned the hard way that letters of credit are advisable or that not all letters of credit are the same. Only once the conditions as specified on the LC are met are banks legally obligated or allowed to release the funds for payment.

One firm that we interviewed had accepted a letter of credit which specified payment on receipt of the *total* shipment, but allowed for partial orders and shipments. Regrettably, it left further orders to complete the terms of the transaction in the hands of the purchaser who, upon ordering and receiving nearly 75 per cent of the goods, decided to wait until he cleared his stock before ordering more goods. After two years of costly arguing, the firm finally got paid, but only once the remainder of the goods were ordered and shipped. Although the goods were to have remained under the control of the bank and access denied to the foreign purchaser, it was evident that this had not been the case and the goods had been released to the importer.

Several firms complained that their local banks seemed quite willing to accept letters of credit for processing but quite unable or unwilling to pass judgement on the security of payment offered or the conditions of sale and payment contained therein. Banks, it seemed, were neutral. While word that there was no such thing as an "irrevocable letter of credit" if this were drawn on an Iranian bank was widely known in the "export community" in the spring of 1986, this intelligence had not yet reached several Canadian branches. Or if it had, bank officials did not make the effort to inform the businesses involved that payment was unlikely and that trade with Iranian companies should involve confirmed letters of credit specifying a European or Canadian bank as the guarantor of payment.

Two other points were raised with regard to banks and letters of credit. Once again it seemed that some banks steeply discounted or disallowed letters of credit as collateral for operating loans. For some firms, this posed a considerable obstacle to increased trade. Lastly, some complained about the slowness of money through the banking system. As one of the interviewees noted:

> After years of dealing with letters of credit I'm amazed how long the money owed to me can float in the banking system . . . and, for some reason, I have not yet had the money arrive in time to be credited to my account on a Friday. Lots of credits on Mondays, though.

Lest it be misunderstood, our evidence does not suggest that all the firms received inadequate support or service from their banks. But the service is sufficiently inconsistent, for no apparent reasons, as to warrant mention. And it certainly had an impact on the ability of these small firms to conduct their business. It is the inconsistency of approach to U.S. receivables and the lack of understanding of letters of credit and lack of awareness in current international developments that are cause for concern among the small business community concerned with exports.

Closely allied to the problem of finance is the issue of export insurance. This was not used extensively by the firms in our sample for a variety of reasons. Many did not know where such insurance could be arranged, and had never looked. Others had looked but did not wish to pay the fees demanded. Still others could not arrange insurance for the countries or purchasers that one wanted to insure at any price. We will leave a discussion of the frequently cited problems with the Export Development Corporation until our discussion of government programs and services. The results of this inability to find insurance was that it either blocked what could be termed high risk sales or increased the risk assumed by exporters—a risk that many could ill-afford.

Finally, only three firms in our sample had used "factoring," that is, sold their 90-day receivables at a discount for immediate cash, as a means of financing export sales. Of these, only one still found that it met their needs.

Overall, the organizations most often mentioned as proving useful by teaching firms the "ins and outs" of exporting, of arranging and assessing letters of credit, export insurance and, in some cases factoring, were the freight-forwarders employed by the exporting firms. In general, they assumed responsibility for preparing the documents necessary for shipping the goods and obtaining custom clearance to get out of Canada and into the importing country. Since proper completion of these transactions and documents was an essential step in the redemption of a letter of credit, freight-forwarders were invariably at the centre of the action and able to advise the small firm how to go about meeting the conditions specified and what to avoid in future transactions.

3. *The Other Insurance: Liability*

As has been observed, many of our sample exported goods and services to the United States. When we posed the question of export insurance to these firms, the matter was often dismissed as irrelevant to the U.S. market. What really concerned them was *product liability insurance*. Many firms had faced 1,000 to 5,000 per cent increases in the cost of liability insurance premiums in the last six months. Others could no longer get insurance, period! For some, the premiums demanded outstripped the profits to be made in the American market. One of those interviewed whose premiums had gone from $1,500 to $25,000 for less than half the original coverage had opted to continue exporting without insurance for the present. As he put it:

> I considered stopping exporting to the 'States' Then I thought, 'What's the difference. There's so much of my product on store shelves and in persons' homes right now for which I am already liable if something should happen that I might as well keep on selling.' But I won't work for the insurance companies, which is what I would be doing if I paid those sorts of premiums.

For such firms, there seemed to be few places to turn for guidance or assistance in this matter. The insurance was generally purchased in the United States from American insurance companies and these were beyond the jurisdiction or influence of federal and provincial governments. Those firms that had arranged their insurance with a competent local agent with whom they had a longstanding relation seemed to have received at least moral assistance, if not more options, than firms that dealt at a distance with the issuing U.S. firms. But most firms had to try and cope with the problem on their own.[7]

4. *Product Compliance I: Getting Out of Canada*

"What I wanted to know," said one perplexed interviewee, "is could I or couldn't I sell these goods to South Africa. And after two days on the phone, I still couldn't get a definitive answer." Not many of the firms we interviewed had to react to prospective blanket trade embargoes such as the one above. As it turned out, no such embargoes on goods to South Africa had as yet been proclaimed. However, for a firm with a large part of its exports directed to South Africa, the threat of one in the future was a forbidding prospect.

Many of the firms in our sample go about the business of exporting oblivious to the degree that governments can and do control the flow of goods out of the country. For some, it is a fact of doing business. To export goods requires an export permit. Which firms or which products require such a permit can be difficult questions to answer. Said one firm representative:

> The onus is on the manufacturer to decide whether the product is a controlled one or not and whether to apply (or not) for an export license. But the legislation is too detailed and technical to understand.

If the truth be known, some firms are oblivious to export controls when they ought not to be. And for some of them, such ignorance of the law could be catastrophic. To return to the above firm which relied on components from the U.S. to manufacture their product:

> The embargo placed on products to Iran in 1980 meant a loss of 25 per cent of our export market . . . but non-compliance was out of the question. The United States government could put us out of business today if they wanted to and if they felt that we were violating Export Control legislation.

All but one of the firms subject to these export controls chaffed at the restrictions placed on them. One accused the government of vetoing sales to countries where their main competitors, including American firms were allowed to sell. Others complained about the time taken to obtain permits and the difficulty this posed for customer relations, not to mention shipping schedules. The time required to obtain a permit seemed to range from 72 hours to 6 weeks. The only factor which seemed to account for most of the variation was the effort spent in greasing the wheels in Ottawa. Which is to say that those that could afford (or were required) to stay on top of their case in Ottawa (the squeaky wheels) seemed to get faster service.

Two firms raised the issue of blanket export permits. In their view, the government knew what they were producing and, if they had agreed to a sale to a country once, there seemed little reason not to agree again. Why then the need for a separate permit? Could government not keep track of exporters to these locations and inform them if it was suddenly decided not to allow further sales to these countries. Others suggested that once an export permit is granted, the government should then be in a position to provide a reasonable list of countries able to receive such goods and issue a permit to that effect.

The rules for exporting goods, like many other regulations in the area, were often found out through the experience of coming up against the rules. One firm, after exporting goods to the U.S., decided to open up new markets in other countries. The owner is convinced that the subsequent delays when his goods were stopped from leaving Canada until a permit was obtained cost him many future sales due to his inability to meet the agreed date for delivery. Though most companies had learned to cope with the demands of export permits, others could point to the extra expense in time and money that these added to the process and would not be sad to see these rationalized.

5. *Product Compliance II: Getting Goods to Other Markets*

How do small firms find out the conditions in which goods can enter into a country and be sold on the market? What duties are payable? What approvals are needed? The answers to these questions depend very much on the destination and the arrangements firms had within these countries. For exports into the United States market, the most useful source of information in this respect seemed to be the customs brokers.[8] Firms quickly recognized the need for a customs broker to get things across the border. One of the first orders of business after finding the customer was to find a broker and begin sorting out the details of getting the goods into the U.S. On the advice of customs brokers, many firms applied for and obtained a "binding tariff classification ruling." Usually the customs brokerage firms also gave advice on the best way to represent the goods so as to minimize the duty payable on the goods entering the U.S.. In two cases, custom brokers even went so far as to perform several elementary assembly steps on every item shipped after these crossed the border. In this way, the firm was able to minimize the duty payable on the product.

For the firms requiring such advice, customs brokers also were a major source of information on the agencies responsible for product approval (e.g., Federal Drug Agency (FDA), Federal Communication Commission (FCC), Underwriters' Laboratory (UL)) and labelling requirements. With respect to obtaining the necessary product approvals, firms in our sample remarked that a simple phone call to the American agency involved yielded the necessary information on how to apply for product certification. The process to be followed in order to obtain product certification was very simple and straightforward. While the Canadian federal government advertises its willingness to provide assistance in these areas, only two of the firms interviewed suggested that they had made use of Canadian government officials to obtain such information.

The situation for compliance of goods and services exported to other parts of the world appeared to be quite a different story and depended primarily on the distribution arrangements made within the importing country. In most cases, however, it was left to the agent or distributor in the importing countries to arrange for the proper clearances into the country and the payment of duties. In the case where sales were made directly to a customer, or in cases where certificates of point of origin were required (sales to Middle East countries), the exporting firm tended to assume more of the responsibilities for obtaining the necessary documentation to clear customs. It was usual for both the distributor/agent and the producer to share the costs and efforts necessary to obtain product certification, if this was necessary.

In contrast to the U.S. market, firms exporting goods to Europe complained of the time and expense required to obtain product approval in some countries. Firms did tend to rely on the Canadian posts abroad in sorting out the tariff and other entrance requirements. However, they also suggested that governments could do more to assist them, particularly with the product certification process.

6. *Transportation*

For some of our sample firms, the cost of transporting goods to the market often was the determining factor in making any sales. For others, adequate shipping schedules were a key to foreign sales. Still others relied on the speed for getting goods to demanding clients. Frequency, speed, flexibility, reliability, price—seldom, it seemed, could one have them all; trade-offs had to be made.

Earlier, we noted that freight-forwarders had played an important role in providing some of our firms with information on the intricacies of letters of credit. As most of the skill and services provided by freight-forwarders can be acquired or learned and incorporated into the firm we included questions on past shipping arrangements as well as present. We also sought out the experiences of firms with respect to the selection of shipping firms.

Rarely did firms employ freight-forwarders when shipping goods to the U.S. market. Those few that did so, used them for difficult (usually small loads), or infrequent shipments and made other arrangements for the rest of their shipments. Nineteen of our sample had used the services of freight-forwarders. Many were chosen from advertisements in appropriate newspapers or the "Yellow Pages." A few had been selected on the references of friends or business acquaintances. Still others had been employed on instruction from the foreign purchaser. Several firms interviewed spoke of the difficulties in determining which firms were suitable. "After all, anyone can buy an ad and make claims, and, conversely, sometimes the best known are the most costly. It's finding someone that's both competent and inexpensive that can make or break a sale."

Of the 19 firms, two had had bad experiences and now spoke openly against the usefulness of such agents. In one of these, the freight-forwarder had gone bankrupt leaving the shipment unpaid for and the terms of the export contract violated. In the other case, the freight-forwarder simply did not know how to do the job, failed to arrange the proper shipping and was able to conceal this failure for a long costly period of months with various excuses. With two other firms, one had found it less expensive to incorporate all of the expertise provided inside the firm. The other used freight-forwarders only for first-time sales to an area in order to establish a reference point for time and cost and to learn of the possible routes.

Of the 15 remaining firms, six had internalized many of the functions such as filling out the proper forms, doing proper packaging, and restricted the use of external services to arranging suitable transport. Four used these services so infrequently as to make the cost of performing these functions internally too prohibitive. The remainder were content to carry on with the present arrangements for the foreseeable future. Often, this decision reflected a degree of gratitude for assistance rendered by the freight-forwarders to the firm during the early days of exporting. In many instances, these firms did not have to absorb the cost of transport due to the conditions attached to the sales.

Shipments to the U.S. market tended to be by truck with exporters using everything from major moving companies to one person operations. The least costly and frequently employed method was the "gypsies" for the "standard" type of manufactured goods. Though this approach was the cheapest, it required someone inside the firm who knew of reliable "gypsies" willing to take a load to (or back to) the U.S. and usually meant that the company had to ship full loads. Firms making use of these low cost truckers tended already to have built up a shipping department through sales to the domestic market. The mode of shipping to the U.S. usually reflected arrangements for shipping goods in the domestic market. The major source of information for alternative means were, logically, the shipping firms already used to transport goods in Canada.

The persons experiencing the most problems with transportation were the smaller high-tech firms where typical shipments consisted of very small packages which did not warrant regular shipping arrangements, but involved a customs-clearance process too difficult and complex to rely on the mail service. At the same time, courier services were both too expensive to employ in relation to the cost of the product and also experienced difficulties "walking these parcels through customs." The firms most likely to experience such problems were consulting services, software firms or high-tech companies who operated through direct sales arrangements as a consequence of widely dispersed markets.[9]

Once again, for novice exporters and shippers, customs brokers were able to provide information on competent shippers (truckers) and possible shipping arrangements. Otherwise, as many said, you had to depend on the honesty of the transportation firm picked at random from highway sightings or yellow pages. "If they said they had experience in shipping your type of goods to your destination, then you had to believe them and hope for the best." Some made it standard practice to obtain and check references before using firms. In the vast majority of cases, the transporters were as good as their word. But when they weren't, the implications for the exporting firm were, at the least, very time consuming, and potentially very costly. Those firms with the most positive experience were those whose customers specified which transportation firm was to be used.

7. *Currency Fluctuations and Controls*

During the 1980s some of our firms have had to cope with radical swings in the terms of trade. Numerous political measures have interceded with the flow of goods in order to protect domestic economies against unforeseen fluctuations in incomes derived from commodities such as oil. Fluctuating exchange rates have served as a sharp reminder of the risks inherent in exporting.

A number of options are available to the exporter that offer protection against losses due to short term currency fluctuations. Most of our firms did not avail themselves of protection offered by some international banking services against these fluctuations but they did gain some protection by pricing their goods and accepting payment only in American dollars. Most had not even sought out other means to hedge their risks. As one person put it, "I didn't go into the exporting business so I could learn to become a currency speculator." Few complained that they had lost money on sales owing to currency shifts from the time of the sale to the time of payment.

Long term currency shifts pose more difficult obstacles for the small firm to overcome. Though the risk of a sudden, sharp loss due to pricing of goods is remote, the loss of substantial investment of money and time is more probable. In the late 1970s, the low U.S. dollar, combined with the steady decline of the Canadian dollar against its U.S. counterpart, made Canadian goods extremely price competitive in Europe and elsewhere. Consequently, several firms in our sample had invested substantial resources to develop markets and establish various arrangements in Europe.

The subsequent resurgent strength of the U.S. dollar in the early 1980s led to wholesale adjustments on a number of exporting fronts. For a number of firms, profit margins were trimmed to the bone in an effort to keep market share and distribution networks intact. However for most, the swing was too great, even with the weakness of the Canadian dollar, and firms saw their market share dwindle and their distributors switch to other product lines. The recent improvement in terms of trade have left firms the difficult decision of whether to try and resurrect their European markets.

A related problem is experienced by those firms who export to countries that have implemented import or currency controls. Years of effort, goodwill and good markets can fall by the wayside, leaving the exporter wondering where the next market is to be found and how long it might remain open. This has been the case particularly for firms that export(ed) to Latin American or African nations.

The best way of overcoming these political or economic restrictions is to shift part or all of the production to the importing countries through joint ventures, direct investment, or licensing arrangements. Ten of the firms interviewed had adopted such strategies. Several others were contemplating similar moves. It was much easier and often more necessary for service firms of any size to establish a foreign presence. The manufacturers that adopted this approach tended to be among the largest employers in our sample.

Trade restrictions and negative currency fluctuations have thus far affected mainly those trading to Europe and the Third World. However, numerous persons voiced their concerns of the possible effects of a stronger dollar against the U.S. currency or increased protectionism in the U.S. or elsewhere. When confronted by such prospects, many of our sample despaired of politics and its possible effects on their livelihood.

8. *Serving Customers and Servicing Equipment*

The difficulty of getting products to market paled when compared to the problem of getting expertise into certain countries, notably the U.S.. Those industries that exported services to the U.S. were plagued with the thought that the next time they presented themselves at the border, they would be denied entry. All but one of the service firms that exported into the U.S. had experienced this problem at some time.

In the U.S., finding clients and signing contracts was sometimes easier than gaining permission to work in the country. Invariably, if formal permission was sought, the company hiring the service firm had difficulty proving that no American could perform the service. In addition, the process could be so time consuming or expensive in legal fees, that seeking such permission was seldom worthwhile. Hence, most of our firms operated without formal permission, claiming that most of the work had been done in the United States and only sent to Canada for checking and minor corrections before being delivered to the U.S. client as a finished product. Great care had to be exercised, however, when crossing into the U.S. with the finished product in hand in order to avoid attracting an onerous duty on the work done. A case in point is blueprints, as the duty assessed is related to the value of the product represented by the "prints."

Manufacturers' service representatives also faced similar problems from time to time, depending on the "state of tension" at the border. The problems not only related to the difficulties of maintenance persons crossing the border to repair or install equipment, but also related to the flow of parts and broken down equipment back and forth across the border.[10] Complications were as likely to occur with Canadian customs officers when attempting to bring equipment back into Canada as from American customs and immigration officials when trying to get in. After expressing frustration on the difficulties of bringing their own equipment back across the border, the head of a high-tech firm also complained of a lack of "ability to enable products in for a trial period with a minimum of paperwork and minimal costs and charges." For this reason, a high priority for most high-technology firms selling into the United States was to establish a branch that could service equipment.

Those firms that experienced the least difficulties in U.S. markets tended to work for the large firms or organizations that had regular access to the U.S. immigration machinery necessary to obtain the required documents. Another popular means was to create a subsidiary staffed by U.S. nationals or establish a close working relationship with an existing firm. While it took time, this generally provided a more suitable means of obtaining legal status to enter the U.S.. Nonetheless, one still had to be mindful of what one was carrying across the border. Lacking a well connected client or a regular working relationship, (both of which usually led to the eventual possession of a temporary work permit), the most popular way to enter the U.S. was to pose as a visitor and hope that the story stood up under the intense scrutiny of an immigration official and hope that the client would understand your absence at the meeting if it didn't.

Most of the service firms in our sample worked in Third World countries and relied on the Canadian International Development Agency or other international development agencies for their work. Many of these were experiencing greater difficulties obtaining foreign contracts as the pool of talent and expertise in Third World countries increased. The central difficulty was in obtaining contracts in the first instance. It was sometimes useful in getting contracts if one had an arrangement with a local firm. As one entrepreneur put it, "It helps to have a cousin of the King as your agent." It was also easier to fulfill contracts if local agents were engaged to do some of the work. No firm mentioned problems of access to work in other countries other than the United States.

Many of these firms that relied on work in the Third World expressed concern over the growing amount of foreign aid work being diverted to a couple of the larger firms. One equated the present circumstances to someone owing the bank billions and having the banks dependent on keeping the debtor afloat. The government, they felt, was now tied into keeping these firms going and as they grew, they kept requiring more work to keep them busy. Though some of the small firms interviewed had worked as subcontractors for these larger firms in the past, they now found that the firms were so large as to encompass all the skills needed to complete a job and thus no longer having to rely on small specialized firms. The recently announced publication of the list of firms with CIDA contracts should shed light on these perceptions.[11]

III. Locating the Helpful Nodes

Of course, many of the potential difficulties in exporting reside in the country of destination, particularly in finding appropriate agents and obtaining product approval. But it may be useful at this point to consider the domestic sources of information and assistance mentioned thus far.

With respect to exports into the U.S., custom brokers were by far the most useful single source of information, particularly, but not exclusively, with regard to the intricacies of getting goods over the border. When it came to other countries, freight-forwarders proved their worth in terms of providing advice on the necessary forms and protocols. In all these cases, the information was sought out by the exporter when the opportunity for exporting had been ascertained. It reflected the tendency for post hoc problem solving in line with, "Now I've got the customer, what do I do?".

When governments were mentioned, the most frequent single reference was to foreign posts abroad and most often connected with assistance in finding customers. In comparison to the extensive use made of government programs and services, (see Chapter 6), governments were not so frequently identified as being helpful to firms in solving specific problems. As far as the federal government was concerned, it would seem from our interviews that the more particular one's problem the less chance there was that one would find that the person who could help was at the other end of the telephone. For those firms that said they had tried, after being shunted to 4 or 5 persons without success, most just gave up and sought the solution elsewhere.

Figure 3.1 shows the frequency with which various agencies or organizations were mentioned in response to a request to identify any individual, group or organization that had been helpful in solving problems and developing export markets.

The most noticeable feature from Figure 3.1 is those most helpful are often found on the "client" end of the exporting arrangement rather than on the domestic scene. In the domestic area, those identified most often as helpful in solving problems and providing advice are those involved in getting the products to market destinations. Outside of CIDA, which purchases many goods and services for export markets, no other single government agency in Canada is seen as a useful place to turn to in solving exporting problems. One criticism often expressed (see Chapter 6) was the large number of government agencies involved with exporting, leaving the outsider with no real clues of where to turn.

In general, we were surprised at how "isolated" the typical firm was in working through their problems. Most belonged to the major associations such as the CMA, a few belonged to the Canadian Exporters Association, yet only two suggested that domestic associations had been of use in the development of export markets. Three of the firms singled out American trade associations as providing timely information and contacts while being equally disparaging of the Canadian counterparts.

Overall, firms did not perceive the presence of any person or organization in their immediate environment that they could turn to for answers to problems associated with exporting. There were, however, important sources of information located outside of

Canada. Firms put great stress on the knowledge gained at trade shows. If there was a hub to exporting expertise, these were the prime candidates. It is to a discussion of these sources and a description of the general networks developed by exporting firms that we now turn.

Figure 3.1
Type and Frequency of Bodies Identified as Very to Somewhat Helpful

							Agency						
F	9.											xxxxx	
R	8.											xxxxx	
E	7.						xxxx	xxxx				xxxxx	
Q	6.						xxxx	xxxx				xxxxx	xxxx
U	5.	ooooo					xxxx	xxxx	xxxxx			xxxxx	xxxx
E	4.	ooooo			ooooo	ooooo	xxxx	xxxx	xxxxx			xxxxx	xxxx
N	3.	ooooo	oooo		ooooo	ooooo	oooo	xxxx	xxxxx	xxxxx	xxxxx	xxxxx	xxxx
C	2.	ooooo	oooo		ooooo	ooooo	oooo	xxxx	xxxxx	xxxxx	xxxxx	xxxxx	xxxx
Y	1.	ooooo	oooo	oooo	ooooo	ooooo	oooo	oooo	ooooo	xxxxx	xxxxx	xxxxx	xxxx
		Gen. Govt. Fed/ Prov	CIDA	DRIE DEA EDC	Broker	Frght For-ward	Other	Trade Shows	Prof & other Assoc.	Foreign Govts.	Prov. Frgn Posts	Cdn. Frgn Posts	Int'l Org.

* "Other" includes banks, clients, legal firms etc.
xxx's indicate assistance generally provided from outside Canada.
ooo's indicate assistance generally provided from inside Canada.

Notes

1. Department of External Affairs, *United States (Chicago and the Midwest): A Guide to Canadian Exporters*, Ottawa: 1985, p. 29.

2. Department of External Affairs, *United States: A Guide* . . . p. 32.

3. For a discussion on the role of trade missions in stimulating exports see R. Seringhaus, *Government Export Marketing Assistance to Small and Medium Sized Ontario Manufacturing Firms: the Role and Impact of Trade Missions on Firms' Off-shore Market Involvement*, Unpublished Ph.D. thesis, York University, 1985.

4. Department of External Affairs, *United States: A Guide* . . . p. 15.

5. These instruments and terms are described in the booklet *Letters of Credit and International Trade* put out by the Royal Bank as follows: "Simply stated, a Letter of Credit is a letter of instructions issued to an exporter by a bank at the request of the customer. It can also be considered a specialized and technical instrument used to finance a shipment of goods from one country to another." p.1.

   "An irrevocable credit is a definite undertaking that the opening bank will effect payment, provided the terms and conditions stipulated in the credit are complied with. It cannot be amended or cancelled without the agreement of all parties, i.e, the consent of the beneficiary, the bank that opened the credit and the party for whose account the credit was opened." p.3.

"The credit worthiness of a Letter of Credit is related to the strength of the bank which opens it . . . In cases where the financial strength of the buyer's country and/or bank is in doubt, the seller may require that another bank, preferably in the country of the seller, undertake to honour the credit by adding its confirmation." p.3

6. Freight-forwarders specialise in the movement of goods. They may offer just the simple services of arranging transport, or could offer a full range of services including preparation of all necessary documentation, export financing, custom-brokering and so forth.

7. In December, 1986, the Government of Ontario announced the U.S. Products Insurance Arrangement to provide liability for Ontario manufacturers at affordable prices. See *The Globe and Mail*, Toronto: Dec. 19, 1986, p. B.6.

8. Customs brokers are licensed specialists in the movement of goods across borders. Services provided include preparation or inspection of documents, clearance of goods through customs, bonding and pre-payment of duty, as well as offering advice related to product description, duties payable, and so forth.

9. The issues of structures and networks are discussed in the next two chapter. For a theoretical discussion of the issues of external arrangements see S. Reid, "Firm Internationalization, Transaction Costs and Strategic Choice, in *International Marketing Review*, Winter, Vol 1. No.2. (Winter, 1983) and ________, "Structure, Strategy and Export Performance: A Transaction Cost Perspective," I.M.P. Research Seminar on International Marketing, Uppsala: 1985.

10. See Greg Barr, "High-tech firms hope free-trade negotiations will result in less red tape," *The Citizen*, Ottawa: June 17, 1986, p. C1, and Alan D. Gray, "Small businesses quietly finding U.S. market," *The Citizen*, Ottawa: December 30, 1986. p. B5.

11. See Andrew McIntosh, "Ottawa set to improve CIDA image," *The Globe and Mail*, Toronto: March 9, 1987, pp. B1 and B2.

Chapter 4

Organizational Structures & Relationships

I. Foreign and Domestic Structures

When a firm begins to sell goods or services in foreign markets, the changes induced frequently extend beyond that of just obtaining new customers. It often leads to new working relationships with persons who are neither inside nor outside of the organization, neither independent from, nor under the control of, the head of the firm. The resulting arrangements can be similar to ones already employed in the domestic market, or, they can be a completely "foreign" experience. For some firms or in some markets, export arrangements are considered to be long term and stable, others treat these as transitory. Over time, events might prove neither of these expectation to be realistic.

In this chapter, we explore the *type*, *variety* and *quality* of the links forged by small firms in export markets. Type of link refers to the means chosen to sell to or interact with foreign clients. Variety refers to the number of different types of links employed in the same or different markets. Quality implies both an assessment of the success of exporting through a particular structure or arrangement as well as a notion of stability and satisfaction of operating in that fashion.

As well as looking at the arrangements that evolve between the firm and its clients abroad, we also examine the implications of exporting for those inside the firm. Was new expertise required? Did new structures and responsibilities evolve inside the firm? Harking back to the size of our sample firms, where most had less than 50 employees, and that even in firms with 100 employees the management contingent was often very small, we wish to assess the demands of exporting and see how these might affect the firm and how solutions are integrated into the routines.

Given the diversity of our sample among service and manufacturing industries, markets, size and industrial sector, we did not expect homogeneity. On the other hand, we did set out to detect patterns, not only in the structures that evolved, but also in the behaviour involved with creating these structures. What decisions were involved in establishing these relationships, what assumptions were made as to how these should work, and how did these "pan out" in the end?

II. Structures in Export Markets

1. *Types Encountered: Manufacturing Sector*

The various possible arrangements that firms might employ for selling or distributing their wares in export markets are: direct sales to foreign customer; consortia/trading house/broker; manufacturing representative/commissioned agent; foreign distributor; foreign sales office; foreign subsidiary.[1] These arrangements are often referred to as an "export channel." These "export channels" form the central core of an "export strategy" and may also be referred to as exporting arrangements or structures. All these types of export channels were employed by one or more of the manufacturing firms in our sample. We discovered that many firms used more than one type of export channel in different and identical markets, and that these exporting structures could be constructed in either parallel or series configurations.

Direct sales rank as the most "primitive" form of export marketing. There are no structural extensions to the firm in the form of recruitment of personnel or agents to serve outside the firm in other markets. However, direct sales can imply many different arrangements. For example, direct sales can come about through the the "mail order" approach, where the goods for export are sold through advertisements, and customers are expected to order directly by mail or telex. In such cases there need not be, and usually is not, direct personal contact between buyer and seller. The major challenges to the firm in this case are presented by finding appropriate and least costly means of getting the product to the client and in establishing internal procedures to handle such orders.

However, direct sales also includes cases where the sales are made from the domestic location but *through personal sales visits (usually on a regular basis) by the staff of the firm*. In addition to these differences, Reid, in an examination of export channels draws a further distinction between two types of direct sales based on frequency of sales, or the occasional versus the direct exporter.[2] All these types of "direct sales" plus one other "near-direct sale" were present in the firms we examined.

An activity closely related to but sufficiently different from direct sales is an arrangement based on private branding or manufacturing equipment for the "Original Equipment Manufacturer" (OEM). Under these circumstances, marketing and sales are tied to the products of the importing manufacturer. The product might be sent direct to the end user, but is usually shipped in conjunction with other components by the OEM. Five exporters in our sample did considerable export business via this export channel while two others had their start as OEM suppliers and, through takeovers by, or of, the OEM, lost the contract and had to begin exporting on their own accord.

Another type of marketing arrangement contained in Reid's "hierarchy of exporting channels", the use of consortia, trading houses and brokers, was employed as a primary means by only one firm in our sample, a grain trading firm. A few others did use trading houses in what were for them, subsidiary or low priority markets. As Table 4.1 shows, this arrangement was the least encountered in our research.

The most prevalent export arrangement adopted by 18 manufacturers (54 per cent) was the use of commissioned agents or manufacturing representatives. For a small firm producing a product that required someone to go out and "beat the bushes" for sales orders, there was little alternative to commissioned agents. Commissioned agents were also frequently used in "series" with foreign subsidiaries and distributors, and in "parallel" with foreign sales offices in adjacent markets.

Table 4.1
Frequency of Export Arrangements: Manufacturers

Channel Types	Primary Means/Markets*	Secondary Means/Markets
Direct Sales	13	6
Supplier to OEM	4	2
Consortia/Trading House/Broker	1	1
Commissioned Agent/ Manufacturing Representative	18	8
Distributor	8	17
Foreign Sales Office**	3	1
Foreign Subsidiary	8	5

* Total number exceeds the number of firms since some firms used more than one channel per market and others developed multiple primary markets.

** Two other firms had established foreign sales offices as part of their initial export strategies but found the cost of these exceeded revenues and had abandoned them by the time of the study.

The term *commissioned agents* covers considerable territory. The "accepted role" of commissioned agents ranged from circumstances of an near distributor type of arrangement which involved some responsibility for the distribution of goods to clients or of holding small inventories, to situations where agents were merely required to take orders from clients and relay these to the firms. In admittedly rare cases, agents were considered to have done their job if they just brought the client and the firm together to negotiate a sale. The selling efforts of agents may or may not be restricted to a given geographic area.

Distributors were a common form of export channel in primary destinations. Three features generally distinguish their role from that of the commissioned agent. First, as implied in the difference in name, distributors are not paid on a commission basis, rather, they make their profit by purchasing goods at one price and selling them at a higher price. The resale price may or may not be regulated by the producer. Secondly, distributors may, and frequently do, have their own chain of agents spread throughout their "distributorship." Distributors normally took title to goods and usually maintained inventories in the country of destination. This was particularly the case where shipping costs had to be minimized by "container-sized" orders. Distributors could also provide after-sales service.

Foreign branches, whether mere corporate shells, sales offices or more full blown subsidiaries were employed by 11 of the firms. Invariably, these did not form the sole part of an export arrangement. Subsidiaries, in particular, often focused on the production or after-sales service functions but relied on networks of agents to sell the goods in the export market. Foreign sales offices also reflected the realities of geography and market size. Firms that had sales offices recognized that an office in New York could not hope to service all of the U.S. market nor could persons in Holland serve all potential clients in Europe. Hence, both these off-shore structures tended to act as nodes through which other actors were linked with "head office."

2. *Types Encountered: Service Sector*

In the service sector, we encounter a slightly different mix of inter-organizational relationships and exporting structures. Once again, there is *direct* marketing of services abroad. Closely related to this are sales made through large domestic companies that have secured overseas contracts. While this could be classified as selling direct within Canada, in an effort to distinguish it from marketing efforts abroad, we classified this activity as *export sub-contracting*. The organizational networks (see below, section IV) tend to be quite different in that firms that concentrate on marketing abroad develop contacts with international development banks and other agencies while those who sub-contract forge links with larger firms closer to home.

Service firms, like manufacturers, find it useful to have someone presenting their case to potential clients when they themselves cannot afford to be there, or when they might not understand local customs and practices. Hence, they also engage agents to secure contracts abroad. Agents, more often than not, have expertise and contacts in the realm of contract letting and project funding. As the level of technical expertise of the foreign actor increases then the arrangement tends to be transformed from that of agent to that of partner in a *joint venture*. Table 4.2 shows the propensity for this sort of arrangement in the export of services.

Finally, for those firms seeking or having a firm toehold in the market, there is the possibility of establishing a direct *subsidiary* office. Two firms had done so.

Table 4.2
Frequency of Export Arrangements: Service Firms

Channel Types	Primary Means/Markets	Secondary Means/Markets*
Direct Selling	8	4
Sub-Contracting	2	0
Commissioned Agent	9	1
Joint Venture	6	1
Subsidiary	2	0

* Secondary in this sense means those firms that operated in more than one market and where it was clear that other markets were less important. Some firms had no secondary markets, while others had more than 2. It could also refer to a secondary channel employed in a primary market.

III. Establishing Export Arrangements

1. *Determinants of Export Channel Selection: Manufacturers*

More research of late has focused on the rationale behind the selection of exporting arrangements. The long held assumptions that firms follow a logical progression so that foreign presence evolves as the export market grows and matures has been effectively challenged. As Reid has noted:

> Explaining export expansion has to take into account the discrepancies between how export expansion is conceptualized as a stage process and evidence that some channel arrangements and structures seem terminal in character, irrespective of a firm's level of export dependence.[3]

In relation to the "progression model" some of our firms did envisage establishing a foreign subsidiary in the future, depending on market growth. On the other hand, others of our firms began exporting with the establishment of a subsidiary. When firms decide to increase production or other physical facilities, whether they will create a subsidiary and where this might be located may be dictated by as much by *government grants, cost of production, tax regimes, national loyalty* and so forth which can offset factors such as proximity to market.

In the face of contrary evidence, the logical progression hypothesis has given way to more complex explanations of why and how export channels are chosen and subsequently reconfigured. One such hypothesis is based on a calculation of transaction costs. It has been suggested that transaction costs and, therefore, export channel selection are primarily determined by two factors, heterogeneity and periodicity in transactions. Hence frequency, regularity and size of sales are seen to be the major influences of export channel selection. Other germane factors include the unit value of the product, the number and dispersion of customers, the number and differences among the products exported, and growth in exports. Reid has presented a model which attempts to explain the "export channels" or arrangements as a function of market similarity, geographic distance, order value, order frequency, and the "slackness" of both financial and managerial resources.

Slack resources are basically a source of additional managerial and productive capacity generated by some expansion process. Additional slack is created through new acquisitions of fungible and indivisible production factors. These are the potentials which the literature cites as instrumental in pursuing export expansion. In this respect the move from occasional export sales to full fledged export departments reflect the firm reaching its administrative limits for handling a particular volume of transactions.[4]

Reid then combines these multiple factors into four decision trees with each tree linking market similarity, geographic distance, order value, and order frequency to the presence of managerial and financial slack. Each branch concludes with a particular choice of preferred export channel. For example under conditions of slack in managerial resources only, with low market similarity, long distances to market, high order value and frequent orders, the logical channel would be a distributor.

The assumptions and research in the area provide further stimulus for analysis of the links made between firms and their export markets, and the reasons behind such relationships. A number of other factors can be gleaned from reading various sources or talking to persons in the business. The most obvious case is where it is considered essential to have a local agent (perhaps even a particular local agent) in order to do business. One would then expect to see any successful exporting firms adopting this arrangement.

While requirements for conformity are not always that rigid or specific, there is a good deal to the saying "When in Rome, do as the Romans do." That is to say, certain structures seem part of a national psyche, reflecting beliefs about the way business ought to be conducted. Hence, new exporters will normally be steered in that direction whether they attempt to enter the market through a trade show or with the assistance of a trade commissioner in a foreign post. "The way it's done in these parts," is not a hollow phrase!

Another important factor flowing from the systems analysis of Paul Lawrence and Jay Lorsch is the importance of product in relation to marketing and selling structures. While Reid and others have partially touched on these through factors such as size and frequency of sales orders, and "unit volume cost," what these seem to underestimate are demands such as the need for "grooming" in the sales relationship. For example, the sale of a single, very expensive item or an item associated with considerable change to the kind of work performed, or the manner of operating within an organization (e.g., computerized control systems) might require frequent visits spread over a long period in order to establish a degree of empathy and trust before a sale can be made. Such demands could preclude or at least pose serious problems for some exporting arrangements.

How then, should we examine the data? We wanted to examine the choice of export channel in relation to the percentage of a firm's exports. At the same time, we thought it would prove useful to examine data that could reflect a "cultural" or national bias in approaches to the market place. Table 4.3 sets these out for the 33 manufacturing firms in our study in terms of percentage of exports, country of destination and export arrangements. The data portray some general trends.

Table 4.3
Major Destination & Export Channels for 33 Manufacturers: Exports/Sales

Characteristics		Destination						
Exports as % of total sales	No.	US	UK	Europe	Far East	Mid East	Developing	WW
< 10%	1					d		
11 - 20%	3	S/A						
	4	OEM		D				
	5					B		
	6		A					
21 - 30%	7							D
	8	A						
31 - 40%	9	d&D/A						
41 - 50%	10	OEM&D						
	11	S&A						
	12	A		D				
	13						d	
51 - 60%	14	A						
	15			D				
	16	S/A						
	17	A&d						
61 - 70%	18	S/A						
	19	so/A						
	20	A						
	21	S/&A&d						
71 - 80%	22	d						
	23	A						
	24	S&A&D						
	25	S&d&OEM						
81 - 90%	26	S/A						
	27	D&d		D				
	28	so/A		so/A				
	29	A&d						
> 90%	30	OEM&d						
	31	so&d						
	32	d						
	33	OEM&D&d						

A = Agent. B = Broker. D = distributor. d = direct sales.
OEM = orig. eqpt. manufacturer. S = subsidiary. so = sales office.
/ = operates in series. & = operates in parallel

One main trend is the predominance of commissioned agents or manufacturers representative in the United States and of distributors elsewhere. The high cost of shipping partial loads of goods to Europe and elsewhere in the world precludes the use of representatives that are unwilling to maintain sufficient inventories to allow for economically sized shipments from Canada. Firms do, of course, use agents in distant markets depending on the product, "normal" shipping arrangements, and extraordinary market circumstances.

An example where inventory and order size are irrelevant is the firm that employs agents in conjunction with a European sales office (28). The product in this case is a sophisticated electronic instrument that is shipped individually packed, usually by air, direct to the customer. Also not shown on Table 4.3 are several secondary markets where the "usual" shipment would be sufficiently large to attract lower transportation costs or where agents, operating in marginal markets, relay sporadic orders for the product notwithstanding the high cost of transportation. However, these account for an insignificant proportion of sales. In most cases, the preferred if not necessary exporting channel for small firms shipping outside of the U.S. is to employ a distributor.

Another hypothesis is that behavioral factors are equally important to the success and selection of export channels. Certainly a person's predisposition ("agents are useless!") will affect selection. Furthermore, expectations and assumptions with respect to earnings and sales results can influence selection, stability and outcome. Rosson and Ford suggest that until the relationship between the firm and its external agents reaches an equilibrium and provides an acceptable level of satisfaction in relation to the assumptions of both parties, then export structures will remain in a state of flux and export performance will suffer.[5] With these factors in mind, let us examine the channels employed by the firms.

2. *Manufacturers Selling Direct from Home*

Seven manufacturing firms (21 per cent) employ the strategy of direct sales from Canada to export destinations outside of the United States. The firms involved pursued this approach for two different reasons and under very different circumstances. Three of the firms involved with direct selling are marginal and/or inexperienced exporters. Profit margins are, for one firm, based mainly on volume (a hardware merchandiser) and for the others (specialty automotive and electrical systems) the final product is assembled from pre-fabricated parts most of which are imported from abroad. In all three cases, the profit margins they are able to extract from their part in the production process are extremely thin—too thin, perhaps, to allow them to engage in successful exporting marketing in the highly competitive world of foreign trade. Because of these low margins, the firms are unable to pay normal agent's commissions, nor can they give sufficient margins for distributors.

Though the shipments involved in any sale would generally be of adequate size to obviate the need for a distributor, without a foreign presence, selling is much more difficult. The ability to pursue export sales depends very much on the ability of domestic sales to absorb the costs flowing from both successful and unsuccessful foreign travels. Though the direct selling approach is inappropriate, it seems to be the only one available for these firms. Exports may continue to flow sporadically as a result of "opportunity knocking" as happened to one of these firms when a prospective buyer approached a provincial delegation to find a Canadian supplier. Nonetheless, long term prospects appear dim.

Four other firms use direct sales almost world-wide as a sideline or spin-off of normal export activity. The marketing effort is primarily through advertisements in trade magazines which support their sales in other markets where they are firmly established. Three of these produce medium- to low-cost products that are readily shipped in small packages. They are prepared to respond to orders from abroad if entry of the product into the country does not pose too difficult a task. For the other, the large size of the product (another specialty automotive) while contributing greatly to shipping cost nevertheless would not normally be considered a punitive "partial load." *None* of these firms is in any sense prepared or expecting to service a significant fraction of their export business through the direct sales approach.

Direct sales to the United States are a different matter entirely. Once again, the concept can encompass a wide variation in practice. The 12 manufacturing firms that sold directly to the United States market varied enormously along several dimensions. The U.S. market accounted for 20 to 95 per cent of their total sales. Selling was done through mail, or by personal visits or simply by direct order from long established customers.

Two firms (metal fabrication and chemicals) sold directly in response to orders received from long-established customers. Nonetheless, this form of selling accounted for only a small portion of their sales with the bulk of their selling into the U.S. done through agents. Two others already mentioned above sold by mail order throughout the U.S. as a sideline, responding to demands created by product advertisements in support of their products which were sold predominantly through agents and distributors.

Only three of the firms employing the direct sales channel use it as their primary means of selling into the U.S. market. The three firms are in very different sectors, namely, specialty automotive, wood products, and high-tech electronics. All three firms paid regular personal visits to their U.S. clients. However, their reasons behind the selection of this export channel are different.

For two firms, proximity is the deciding factor. The specialty automotive firm maintains a home-based sales force responsible for visiting and selling in the adjacent northeastern United States and uses agents to cover the remainder of the U.S. The wood products firm does all of its sales direct to its U.S. customers in a range 500 miles to the west of its location. No attempt is made to sell into northeastern U.S. due to the high level of competition from Quebec and northeastern U.S. suppliers. Beyond the 500 mile range to the west, the cost of transportation places too much pressure on profit margins to enable the firm to develop regular customers. Frequent fluctuations in price and the quality demanded rule out the use of agents.

The high-tech firm does virtually all of its sales in the U.S. on a direct sales basis. The geographic concentration of potential customers (aerospace industry) in specific pockets of the U.S. makes such a strategy possible while the head of the firm feels that the complexity of the product and the novelty of the firm in the area makes personal selling mandatory. Not only were agents capable of explaining this product thought to be extremely rare, but with no track record in this area, and few products in use, the firm assumes that guarantees of quality and service must be confidently projected from the first contact. In addition the owner wants to have firsthand feedback on the views expressed by clients on the features offered by their product.

The company just discussed has another rationale for selling direct that applied to several companies. Its products are both expensive and crucial to the success of other firms' business endeavours. Two other firms also fall into the category of selling similar goods and employing the direct approach. One produces heavy machinery used in the fabrication of office equipment while another produces costly hi tech electronic research equipment. The former employed two agents to beat the bushes and the latter had a sales office located in the U.S. However both found that because of the size of investment required the customers frequently insisted in dealing with the principals involved. As one manager put it,

> Our clients are going to spend over $150,000 for a machine that must run for years if it is to pay for itself. Clients want to meet you and know you on a personal basis .... The key to selling is to get the customer to the plant to see the equipment. You must have a good home base to show the client.

The client not only wanted to visit the firm at its home, but also expected the Canadian head to visit their establishment on a regular basis in order to ensure that the seller understood the needs of the customer and could give assurances that their product would fit into the work processes as observed.

Another form of investment with high stakes for organizations are those associated with changes to human, technical and/or organizational systems. The last three of our firms, all high-tech electronics, make products that fit into that category. Their products are designed to fit nicely into a niche of elaborate socio/technical systems (e.g., automated banking systems) which often transform the way in which persons interact and conduct their affairs. The implications of a "systems failure" when taken in conjunction with the modest size and often brief history of the firms involved resulted in high levels of scrutiny on the part of potential purchasers. Sales depended not only on personal assurances but visits to judge production facilities, management styles and general organization. As one of our interviewees suggested:

> When the stakes are this high, the purchaser is going to want to meet with us. No matter how many salesmen or engineers you have out there, the real selling only takes place when the client has had the opportunity to assess the people who head up the organization. That says a lot about the firm that the customer needs to know if they are to feel confident in their purchase.

Hence in many cases, direct sales are an essential element for the selling process of a firm's products.

3. *Of Manufacturers' Subsidiaries and Sales Offices*

On the other end of the exporting channel hierarchy lie foreign sales offices and subsidiaries. Eleven manufacturing firms employ these channels in primary and secondary markets and still another has a sales office in their secondary market, Europe. As with direct sales, the reasons for adopting these channels vary considerably. Electing to establish a subsidiary does not seem to depend on the degree of reliance on export sales, the length of time a firm has been exporting, or the absolute amount a firm exports. For example, the firms having foreign subsidiaries export from 20 to 90 per cent of total sales, some established foreign subsidiaries from the first days of exporting, others after years.

Perhaps more could be said about *reliance on exporting* as an indicator as six of the firms having subsidiaries export over 50 per cent of their production. That, however, would have to be counterbalanced against the many other firms that also rely on exports but don't have subsidiaries. Furthermore, it disguises the many other reasons that lie behind the decision to create subsidiaries.

What are these reasons? One of the most oft assumed reasons is to expand production facilities. Two firms that established subsidiaries from the outset recognized that if they succeeded in the export venture then they would have to have new production facilities very early on in the process. The decision to establish foreign production facilities was encouraged by subsidies offered by foreign governments at the state and local level in the sites chosen. To a degree, the decision to produce in the U.S. also decreased the duty payable and thus, if costs were equal, made them more competitive in the U.S. market then they would have been.

Another key reason to produce in the U.S. was to increase market size either through improved price competitiveness or enhanced eligibility to restricted markets. By locating subsidiary production facilities closer to new markets, transportation cost could be lowered. But more important, perhaps, than lowering duty or transportation costs was that U.S. production made companies eligible for public procurement that demanded certain levels of American content.

Other firms found tax advantages in having subsidiaries "buy" the product at a fixed rate and sell elsewhere, thus moving a tax liability from one jurisdiction to another. Still a few others were influenced by the availability of government funds to establish some foreign presence. One firm "acquired" subsidiaries by being purchased by another firm with its own subsidiary.

Of course the term "subsidiary" covers a number of sins. It can mean full-fledged production facilities; or little more than a warehouse with one person wielding a screw-driver; or any point in between. There are subsidiaries that are concerned with little more than processing invoices and answering telephones while yet others can serve as major service depots. Finally, some subsidiaries only provide a base for sales staff. All these types were encountered, all these reasons cited at some course during our interviews.

No firm offered only one reason for establishing a subsidiary. The most often invoked reason was the need to create a suitable sales image or market presence. There is no better way at present to make the border invisible to American purchasers, so it would seem, than to have a U.S. address. How this thinking might be affected if a free trade arrangement was established is difficult to determine. This is so because the matter is more in the perceptions of U.S. purchasers than in real difficulties of supply.

Whatever the initial reason for creating an American subsidiary, one of the most valuable functions of a subsidiary is after-sales servicing. Having local staff to do this eliminates the fundamental headaches of either getting service staff into the United States or of the paperwork associated with bringing the defective equipment through Canadian customs for repair.

Sales offices were employed by two high-tech firms who cited the need for a U.S. presence in order to sell in that market. Two other high-tech firms had established sales offices in the U.S. on entering that market but had to close them due to expense involved. The other firm, a producer of household chemicals, cited the need to centralize its U.S. sales efforts in order to minimize the demands placed on an exceptionally lean Canadian organization.

Table 4.3 shows the prevalence for firms to employ more than one channel in their primary export markets. Seventeen firms employed more than one marketing channel in their primary market. Subsidiaries in the U.S. market, for example, were all "chained", most often with agents. In some instances, this reflected the geographic dispersion and the number of customers. That is, it was not feasible to service all clients from one location. Thus agents took over territories further away from subsidiaries. In other cases, reflecting certain market peculiarities (see below) agents still did most of the marketing while sales personnel within the subsidiary provided sales back-up and looked after special client needs.

"Chaining" can be done in series or in parallel with the subsidiary. A series arrangement of subsidiary and agent reflected the reporting path for agents, that is, through the subsidiary. In addition, it was possible to have subsidiaries assume no responsibility for agents in which case they could be said to operate in parallel with the agents who reported directly to "headquarters" in Canada. Either variation could be used with a division of selling responsibilities based on geography or client attribute as noted above.

When sales offices were established for a given geographic area, they tended to assume responsibility for monitoring and developing all the sales within that region. That is, no sales office was chained in parallel with other means. However, in all cases, sales office staff were complemented by the use of agents working under the direction of the sales office. In both cases, the firms employing sales offices were high-tech firms selling high cost goods with a low order rate. A local outlet was seen as essential to success in the marketplace. Potential clients were situated in institutions spread throughout the country. The cost of the products ($150K+) usually meant a long time was required for a decision to be taken whether funds ought to be allocated to purchase the equipment. The role of agents was more to monitor territories for potential purchasers and facilitate the entrance of full-time sales staff where the situation warranted such action. In this way, the full-time company representative maximized time spent with "live sales prospects."

4. Channel and Market Differentiation in the Service Sector

As a rule, the manufacturer is usually looking to establish long-term relations with potential customers around the world. Even those that approach exports as a means of getting rid of surpluses prefer (and could expect) to be able to turn to the same customer every time a surplus accumulated. On the other hand, many service firms, even those that must continue to have high levels of exporting are faced with the reality that repeat business in their line means quite a different thing.

A firm can be very skilled at designing and constructing dams or bridges, but how many of these will one country build? Frequently for many firms that market their services in developing countries, though the product may be the same, *both the client and the country are often different.* Manufacturers arriving in a country look at it from the perspective of who and how many living there might buy their products. Many service firms arrive with the single prospect of winning a bid on a known, finite project.

"The service sector" encompasses very many different activities, not all of which operate on a project-by-project basis around the world. Some require repeat business from clients to be profitable. For this to happen, they must usually establish a presence proximate to the market. Once again, size is not a good indication either of exporting or organizational structure. The size of the service firms in our sample ranged from three to 225. Altogether, six firms had less than 10 employees. Exporting accounted for less than 10 per cent of billings for two of these and more than 80 per cent for three others. At the same time, the largest firm had no subsidiaries while one with 15 employees did. The anxious researcher or confused reader could well ask: "Are there any patterns here?".

Considerable differences are observable differences between those firms that sell services to the U.S. market and Europe and those that sell their services elsewhere. First, the type of services sold in each market are quite different. The U.S. and European markets attract environmental engineering, mass communications, computer, transportation and automotive specialists. The developing countries provide openings for various consulting engineering companies, communications, resource and map-making expertise.

Not only are the areas of expertise quite different, but the channels employed tend to reflect things such as distance and frequency of repeat business. Firms selling services to the U.S. tend to do so on a more permanent basis.

Subsidiaries or joint-ventures, which facilitate movement of personnel across the border, account for the majority of the channels. Three firms market their product directly, two of which have "joint venture" agreements with American firms but these are inoperative and are only designed to help the firms who must make frequent sorties into the U.S. and have encountered difficulties a number of times when moving personnel or products across the border. The third has well established clients in the U.S. market that seek out their expertise on a regular basis. However, that firm, too, is in the process of establishing a subsidiary in the U.S.

Most of the firms that market their services in the developing world employ *agents*. For those that rely on a *direct sales* strategy, the selling tends to take place in Canada through efforts to secure CIDA contracts or, on a smaller scale, access to EDC financing.

Most, however, find operating in foreign lands impossible without some form of local assistance in securing contracts, and in some cases, fulfilling them. While some firms had found that one project seemed to lead to opportunities for one or two more projects in a country, the general opinion expressed by consulting engineering firms was that more and more Third World countries now possess sufficient expertise of their own to successfully complete routine construction projects. Projects open to foreign service firms are rapidly being limited to only very large projects or those where donor nations insist on the use of their own nationals through tied aid.

Table 4.4
Major Destination & Export Channels for Service Firms: Exports/Sales

Characteristics		Destination						
Exports as % of total sales	No.	US	UK	Europe	Far East	Mid East	Developing	WW
< 10%	1						d	
	2						S-C	
	3						S-C	
11 - 20%	4	J.V.						
21 - 30%	5						A&d	
	6						A&J.V.&d	
	7						A	
31 - 40%								
41 - 50%	8	J.V.		J.V.				
	9						A	
51 - 60%	10	S&d						
	11				J.V.	d		
61 - 70%	12	d						
	13	d&A						
71 - 80%	14	S					A	
81 - 90%	15	d						
	16							A&d
	17						A	
	18						d	
	19						A	
> 90%	20			J.V.	A			

A = Agent. d = direct sales. J.V. = Joint Venture.
S = subsidiary. S-C = subcontract.
/ = operates in series. & = operates in parallel.

Table 4.4 shows that the firms selling the least amount relied on contacts in Canada. The first exported their services exclusively through CIDA contracts, while the other two, located in Montreal, secured export opportunities in conjunction with larger firms that they had previously worked with in the domestic market.

IV. Expansion and Control

1. *Inside the Firm: At Home and Abroad*

The decision to expand into new markets must be accompanied by the related issues of how best to proceed. Will the firm need new skills, or will it need more of the skills it already possess? Should or can these necessary factors be "bought and brought" into the firm, or should they be "rented" on an "as needed" basis? It is not simply a matter of what skills but also where and when these will be required. The extent to which the firm incorporates the skills needed within the firm will depend on how much the firm uses the service or expertise and whether it is possible to replicate these services inside. It may also depend on whether the task can be broken down into component parts with any resulting saving of resources. As previously noted:

> Continued growth in foreign sales can provide diseconomies in use of outside agencies while creating a 'critical mass' for organizing these activities internally. When this is achieved a change in organizational structure results.[8]

(a) Abroad

In examining the structural evolution of exporting firms, it is necessary to separate real from deceptive practice. This is most clearly the case when looking at subsidiaries. Some subsidiaries do little more than provide a heading on corporate stationery while others are near replicas of the Canadian operation. Extensions of the domestic organization in the form of foreign subsidiaries can be effectively used to facilitate the work of the firm. The decision of what sort of subsidiary will depend on whether one sees the need for an increase or shift (for cost purposes) in production, additional sales personnel, improved market intelligence, better service capacity, or all these things.

There were two full-blown manufacturing subsidiaries that did all these things; that is, they produced, sold, observed market trends, provided service and managed most of their own affairs. As for the remainder, two only produced and serviced goods, one provided just service facilities, one looked after sales and service, one was responsible for sales and market intelligence and another provided an American address and the advantages accruing from this.

Of the four "producing" subsidiaries, three assembled products from parts sent from their Canadian parent. In no case did the creation of a subsidiary lead to the abandonment of the use of agents as the principal selling mechanism in the U.S. market. And, unless a subsidiary also had responsibility for sales, the agents continued to report directly to the Canadian firm.

In the service sector, two firms with primary markets in the U.S. had established subsidiaries in there. One of these was primarily a device to establish a U.S. presence and facilitate the flow of personnel across the border. The other was much more substantive. Not only did it have much more staff (30 versus 3 professionals) but also the office was necessary to permit the firm to offer of a full range of certified engineering services.

A similar range of motivations were found with respect to the use of warehouses in the United States. A number of firms rent warehouse facilities in the U.S. merely to project a U.S. address to perspective clients; that is, they are used only as a postal drop or a call forwarding station. For others, access to a bonded warehouse is what allows them to export. It minimizes brokerage and transportation costs, and their exposure to credit risk. Goods are shipped in bulk from Canada and released from bonded warehouses in small lots only on approval from the Canadian firm.

(b) At Home

In addition to the new structures located away from the firm, the successful exporting firm can also undergo modification to the combination of skills and organizational structures of the home office. The exact nature of these changes often depend on the per cent of sales exported, the range of services or products exported, and the frequency and type of orders. The most common change was the importation into the firm—through training or recruitment—of new clerical skills related to customs clearance and transportation. This usually involved having someone capable of filling out the proper custom clearance forms, and assuming responsibilities for seeking out appropriate transportation modes to various destinations. "Survival" exporters tended to recruit these skills while "expansion" exporters most often tended to train existing staff already familiar with shipping and transportation. In a few cases, firms shipping to locations close to the U.S. border found it useful to assume responsibility for their own transportation of goods.

Exporting led to an elaboration of management roles in two key areas, sales and inter-organizational dialogue. The increased time demands from travelling to distant markets, as well as the time required to direct an expanded sales force, often lead to the adoption of a more developed sales component in the organization. One means to reduce the demands on management, as just discussed, was to redirect the reporting structure of foreign sales staff through a foreign subsidiary or sales office. A second means was to recruit a sales or "export" manager to serve in the home firm while a third means, mainly employed in Europe, was to chain agents through a central distribution centre.

Exporting also increased the requirement for interacting with other organizations in the firm's environment. There were new regulations to learn, government agencies to deal with, and potential contractual obligations to consider. Following initial exporting success and subsequent demands on the owners or senior management time, it was not unusual for a firm to recruit an "export" manager. These individuals usually assumed responsibility for ensuring that export functions were managed in the most economical means possible. They also assumed responsibility for investigating likely trade shows and so forth. Often their most important and economically rewarding task (for the firm) was to ensure maximum access to government programs. And, for firms requiring export permits, monitoring the progress of these through the government machinery and sorting out acceptable markets for the firm's "restricted" goods were important functions. The Ontario government sponsors an "intern" program designed to assist firms in integrating persons with exporting expertise into the management contingent of the firm.

A situation which can result in tensions and subsequent restructuring within an organization was when only part of the products or services were exported. The result was often a growing imbalance in the growth of the firm in those areas open to the export market. As export success progresses from between 20 to 40 per cent, management was faced with a fundamental decision concerning the maintenance of two markets, which sometimes called for different production processes, different structures, customers and interaction patterns.[7] As exporting proceeds through the 40 to 60 per cent range, management is confronted with a situation equivalent to running two separate firms, in at least two distinct markets for two different clientele.

Nine manufacturers (37 per cent) and two service firms (10 per cent) had experienced a situation such as this. Health problems in the form of a reaction to existing production processes provided incentive for one owner to abandon its old business entirely. Another owner split the company in two and sold 75 per cent of the old company to new partners. Another in the rapidly changing electronic industry simply let time reduce its reliance on sales to domestic producers by gearing its new product development to the demands of the U.S. market and letting the old products die out.

A further illustration is provided by two metal fabrication plants that were rapidly approaching such a decision as the export market for one product continued to grow at a rapid rate while demand for the traditional products serving local markets was growing more modestly. The resources of the firm, particularly managerial time were stretched to the point where the firm was being forced to decide whether it could maintain an adequate level of service for its traditional customers who kept returning but were far less profitable in the short term. Both firms were moving from mainly custom work for local and export customers to that of specialized but repetitive production of few products for the export market.

The latter called for more elaborate costly machines that were more efficient when operated on long production runs on single settings. The raw materials used and the production problems encountered were sufficiently different so as to require new design skills among the professional staff. Changes to deal with local custom work were not only inefficient uses of the newer machinery, but also tended to throw production schedules off track. Nonetheless, timely service to local customers was necessary. The firm, however, needed both streams of business for its present survival. There was some attempt to employ sub-contractors to deal with old customer orders, but this too set new demands on the firm's managerial resources. At the same time, management recognized that in the long term, the problem would only be addressed by choosing one market over the other. But which market ensured the long term profitability and viability of the firm?

Service firms also had to cope with similar pressures as dependence on, and commitment to, exporting grew. The skills of persons inside the firm were often quite different. The ability to work directly with persons is usually more important. Hence language facility and citizenship were often more important in the exporting service firm. So too was the willingness to travel and live abroad for extended periods.

Firms recruiting highly skilled persons with these additional attributes had to be willing to pay a premium. Hence, recruitment often had to reflect the firm's expectations for future growth and the subsequent marketing effort they would pursue—decisions which brought their own tensions. Over time, the firm tended to divide into those that worked mainly in export markets and those that worked at home.

Overall, the data support the contentions of Daly and MacCharles concerning specialization and export activities.[8] Seventy-five per cent of the manufacturing firms (12/16) that used the export market as a means of expansion attempted to sell only some of their lines in export markets. Even three of the "survival" firms have, in effect, started up new businesses based on exportable product lines, and dropped their old products and associated clientele entirely. Similarly, one of the firms attempting to smooth out the dips in domestic demand only attempted to export a part of its product lines. Hence, nearly 50 per cent of manufacturers, (16/33) had entered export markets with only some of their products.

Our findings also appear to support the general supposition of the need to focus export *marketing* efforts on certain products. This does not necessarily contradict Balcone's findings that only only 14 per cent of the 250 firms in his sample had chosen to specialize and were producing a narrower range of products.[9] Specialised export marketing must be differentiated from specialized production. Many of our firms *did not reduce* their product range, though they did experience the tensions of "imbalanced growth." They continued to produce non-exportable goods solely for the domestic market. At the same time, many of these were able to achieve economies of scale in the products exported, reducing input costs, and depending on the degree to which the other products were related (e.g., used the same resin as in manufacturing plastics) were able to increase their competitiveness across the whole range of products. If firms were both persistent and very successful in their export marketing endeavours, there was a tendency to shift production to those goods that could be sold in both domestic and foreign markets or to split the organizations.[10]

Thus, though there may not be substantial product specialization, there can be significant organizational specialization/differentiation associated with exporting, even in very small firms. This is especially important given that most (79 per cent) firms in our sample either maintained or widened their product range overall. As Lawrence and Lorsch might put it, the firms "segment themselves into functional subunits" to cope with changes in both the market and technical-economic sub-environments.[11]

2. *Agents: A Case of the Self-Fulfilling Prophesy?*

Manufacturing firms seem sharply divided on the usefulness of and long-term need for agents and distributors. Naturally enough, firms can at times feel frustrated with the slight amount of control they can wield over the actions of foreign representatives, especially when their success seems wholly dependent on the performance of these individuals. One hope often expressed was for the day when sales levels would permit firms to abandon this arrangement and sell their wares with their own staff. On the other hand, we were frequently confronted with the opposite view of the worthiness of agents. Some firms wouldn't have it any other way!

What accounts for these two views? How could one reconcile the fact that "agents can't be trusted" with the observation that "the agents I have have been with me for years and are closer to me than most of my managers?" Why do some firms readily admit that they owe their success to their agents while others are equally convinced that the blame rests with poor representation abroad?

A number of possible explanations for the widespread dichotomy can be suggested. The world might be full of poorly qualified agents or distributors. Nonetheless, some firms do not seem to have come across these while other firms seem to be always locating and hiring this type. As one interviewee stated, "You are better off not having a distributor than to have a bad one." Some of our firms knew the difference between a good distributor or agent and a bad one. Better still, some knew how to locate and select the good ones while others clearly did not.

Two firms operating in high volume, low cost product markets were completely dependent on an external sales force. The heads of both of these firms had experience as agents or distributors in their own right. One firm was a Canadian distributor of imported goods (medical supplies), while the owner of the other firm (consumer plastics), had a background in sales prior to purchasing the business. Both had a good idea of the qualities they would look for in finding someone to sell their product. Both also knew how their product was normally sold in their respective markets (Europe and the U.S.).

Their criteria for selection were quite straightforward and commendable. They sought someone who had regular and successful contact with persons who would purchase their goods. One firm looked for individuals who sold complementary goods to hospitals and the other looked at agents that sold goods to stores that would also carry plastic products. An effective means of locating perspective agents was to go and ask potential clients who they bought goods from and, if possible, why they purchased from these persons.

Another was to find out who represented highly reputable complementary product lines to these same purchasers. If that person did not also sell a product which competed with theirs, then they were asked whether they would be willing to sell the Canadian product. In this way, the reputation of the other products in the line represented by that distributor/agent provided a "halo effect" for the Canadian product. In *no event* was a person taken on without a check of references from persons who regularly bought goods from this individual.

These two firms were not the only ones to employ these or similar techniques to locate appropriate representatives. Unfortunately, such insights into the kind of person who makes a good representative or the attention to detail to find this person were not always present among the persons who complained about the skills and qualities of agents.

Another factor critical to the relationship that develops with a firm's agents are the *expectations*. Many firms expressing disappointment with the outcomes began exporting with very high expectations of the rate of sales. If sales failed to grow as much or as fast as expected, the firm placed the blame on an agents lack of initiative. After a period of increasing tension, the agent would be replaced by another. The firm would usually enter into the new relationship with the same or even higher expectations. There were a few firms that had changed agents enough times to give them cause to pause and reflect on their expectations for the rate of expansion in the export market. Most, however, still chose to blame the agents.

An often ill-conceived expectation was that of exclusivity. Firms did not mind using an agent or distributor as long as they were prepared to handle only their products. In this way, firms reasoned that the representative would have more reason to concentrate on developing a market. The head of one firm stated that he wanted his "own man." He was quite willing to sacrifice experience and contacts for the sake of exclusivity. "Better the hungry than the fat cat." What this philosophy omits, however, is how the fat cat got fat in the first instance while the other stayed hungry. More importantly, it often fails to consider whether there is an adequate living to be made in selling the product of only one small firm within a reasonably sized territory.

Where these two expectations are most likely to converge with unfortunate consequences are with those firms that produce high cost, low volume items. As discussed earlier, not many persons make the decision to purchase an expensive item at the spur of the moment. Even less remote is the possibility that such a purchase would be made on the basis of just one visit. The painful truth of such sales is that they can take a long time before a decision is made. Sometimes a preliminary decision is made to buy one piece of equipment over another (e.g., an electron microscope over a spectrum analyzer or a lathe over a computer). Subsequently, it becomes a question of which supplier should be chosen. During all this period, the regular visit of a representative may be crucial to satisfactory decisions along the way. In such a scenario—which is not unusual for some of our firms—if one has chosen the representative that visits the company regularly and sell things that contribute to the degree of trust, then the chance of gaining the sale are high. Any other combination suffers a serious drawback. For example, an exclusive agent could also visit on a regular basis, and with patience achieve the same result. But one must ask what the exclusive agents lives on in the interim.

Changing agents on a regular basis does not advance the cause either. What seems to develop in such cases is a high level of frustration with agents followed shortly by an attempt to establish structures that result in greater control of the process such as a sales subsidiary or foreign sales office or a total reliance on the direct sale channel.

While the suspicion of agents was found to exist among several firms, the level of suspicion was highest in those two firms that participated at export club meetings. As these clubs are supposed to educate firms on exporting, many of them focus on the ills that can befall the unwary. This advice towards caution of what lies beyond the border is reinforced by the interests of the regular attendees at the meetings. The most active members in these clubs are firms such as trading houses who have a direct stake in discouraging firms to export on their own, and instead, to trust firms with knowledge of the difficult world of exporting to firms such as themselves.[12] Though these exporters did not themselves use the services of trading houses, they did not seem able to settle on a satisfactory exporting arrangement. The tendency in both firms was to control the selling process within the firm through a direct sales approach.

V. Slow but Steady

The implications of exporting on the firm can be influenced by the stage at which it begins exporting. "Mature" firms have established patterns in the domestic market which usually imply that discrete units within the organization responsible for shipping, sales, and so forth are more developed. This, in turn, means that responsibilities for the new interactions related to exporting can be dispersed among the existing units and, more importantly, that the many contacts with the environment (transportation, other exporting firms) are likely to make the collection and testing of information easier. New skill requirements are more easily discerned and, if exporting is a major part of the expansion plan, these skills are usually incorporated into the firm.

Still, there appears to be no one best approach to the many varieties of exporting arrangements that might exist. Different markets or different products call for different methods or structures. Clearly, the situation and needs of home office must be considered before one chooses a path. If increased production, more foreign participation or ease of access are important to export success, then a more formalized presence such as a foreign subsidiary might be what is required. Such things can neither be predicted nor decided in advance.

It is beneficial, however, to distinguish between the arrangements related to production, transportation of goods, or the services that firms provide and those arrangements related to sales in foreign markets. Most firms have the option to "make or buy" the facilities necessary to exporting. The first features to be "made" or integrated into the firm are traditionally those related to moving goods to market (transportation and customs documentation) and formalizing responsibilities for inter-organizational relationships. The most likely to be "bought" for the longest period are the contacts and skills associated with selling in the export markets.

From our perspective, those firms that move slowly along this spectrum of incorporating new skills into the organization are most likely to minimize the costs and maximize the benefits as exports increase. For most of the firms, if they should ever reach the stage where it was economically efficient to incorporate all the skills inside the organization, then they would probably have attained a size that would no longer allow them to be defined as SMEs.

While it appears that the most predominant and effective way to start off in a new market is to locate and recruit local representatives who are already well integrated into the target market place, this should not be seen as the only alternative. Nonetheless, firms must take into account the patterns already established with regard to how one "normally" sells to the targetted industries and should give strong second thoughts prior to adopting structures that run counter to the normal practices of a given export market.

As we shall see in the next chapter, the majority of the firms above the median figure for export to domestic sales ratios use a variety of means within a given market.

Whatever means is chosen, the most important factor is that firms be realistic in their assessments of sales potential and in the earnings that might be derived from export sales when deciding on appropriate export channels and structures. Two of the firms in our sample had tried to progress much too fast in establishing a dedicated foreign sales presence and were nearly put out of business by the pressures placed on the cash flow position of the firm by the subsequent accelerated growth in overhead costs. Several others who felt their sales potential was sufficient to warrant an exclusive agents based this decision on the sales potential of a geographic area that required the agent to be constantly on the road.

Notes

1. This list and much of the following discussion is derived from S. Reid, "Structure, Strategy and Export Performance: A Transaction Cost Perspective," a paper given at 2nd. Open International I.M.P. Research Seminar on International Marketing. Uppsala, 1985, p. 11. For a good description of the salient characteristics of each arrangement see George T. Jacob, *A Manual on Export Marketing*, Ottawa: Minister of Supply and Services, 1983. pp. 84)88.

2. S. Reid, "Firm Internationalization, Transaction Costs and Choices" in International Marketing Review, Vol. 1 No. 2, Winter 1983.

3. Reid (1985) p. 11.

4. Reid (1985) p. 11.

5. P. Rosson, "Success Factors in Manufacturer-Overseas Distributor Relationships in International Marketing," in International Marketing Management, E. Kaynak, (ed.), New York: Praeger, 1984. Also see _______, "Stake, Conflict and Performance in Export Channels," in CC*Management International Review*, Vol. 20. No. 4; and _______, and D. Ford, "Manufacturers-Overseas Distributor Relations and Export Performance," in *Journal of International Business Studies*, Fall 13.

6. Reid (1985) p. 6.

7. Archer states: "Once export sales become a major source of revenue, a special export section or department is justified." Archer does not, however, specify a level of export sales. Maurice Archer, *An Introduction to Canadian Business*, Fifth Edition, Toronto: McGraw-Hill Ryerson, 1986, p. 563.

8. The need for Canadian firms to specialize in order to compete in export markets was put most recently by D.J. Daly and D.C. MacCharles, *Canadian Manufactured Exports: Constraints and Opportunities*, Montreal: The Institute for Research in Public Policy, 1986.

9. David Balcome, Choosing Their Own Paths: Profiles of the Export Strategies of Canadian Manufacturers, Ottawa: Conference Board of Canada, 1986.

10. Naturally, for those firms where exporting was necessary from the start, the question of more or less specialization was irrelevant. The products produced by the firm, by definition, required export markets.

11. Paul R. Lawrence and Jay W. Lorsch, "Differentiation and Integration in Complex Organizations," in *Administrative Science Quarterly*, Vol. 12, No.1, June 1967, pp. 1-47.

12. This is a good example of the Schattschneider theme that "organization is the mobilization of bias." E.E. Schattschneider, *The Semisovereign People*, New York: Holt, Rinehart and Winston, 1960, p. 35.

Chapter 5

The Exporting Network

I. Organizational Links in Domestic and Foreign Markets

Several important aspects of organization-environment interactions have already been noted in regard to the firm's decision to export, the process of locating the necessary resources, and the structural arrangements and changes to handle the various aspects of exporting. In addition, we have examined the range of organizational possibilities available to exporters. In doing so, we have presented information on the actual usage of various exporting channels by the 53 firms in our sample as well the advantages and disadvantages of these as perceived by the firms.

The positive outcomes expected from "networking" or interacting with other organizations in the development of export capacity have also been mentioned. As part of the "export drive", governments have published reports that extol the virtues of tapping the experience of agencies (e.g., freight forwarders) early on in the consideration of export markets.[1] It has been suggested the development of networks comprised of firms engaged in exporting and firms that specialize in assisting firms to export such as trading houses or custom brokers would prove beneficial to the development of the export capabilities for small firms by acting as a ready source of this sort of information.

One of the most visible facets of these attempts has been the proliferation of local chapters of "export clubs" usually affiliated with and receiving minimal support from the local Chamber of Commerce. Governments have lent their support, both financial and moral, to the development of these clubs which are designed to serve as "an organization of people to provide an informal forum for the promotion of knowledge and awareness of international business."[3]

Figure 5.1
Export Networks

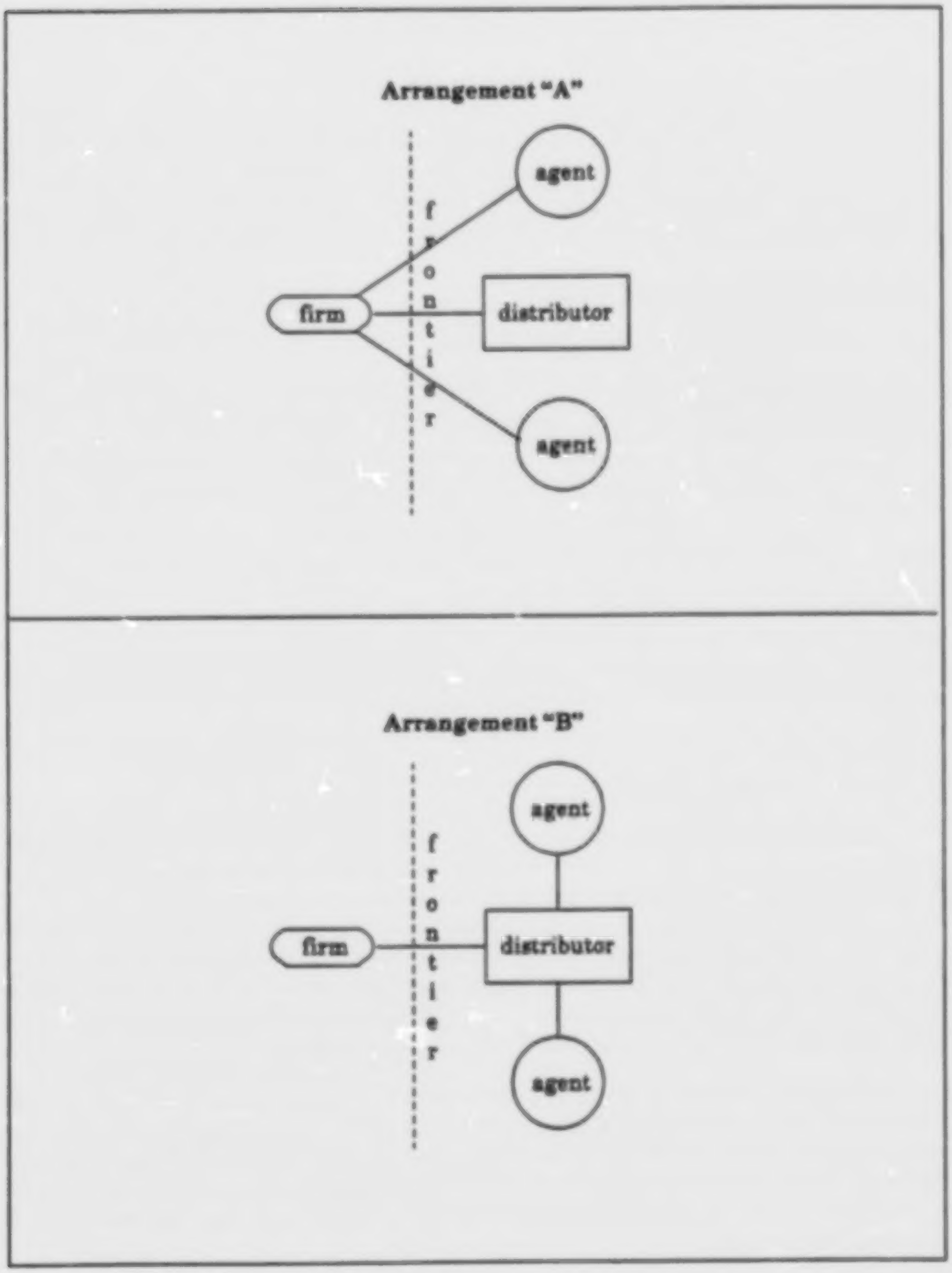
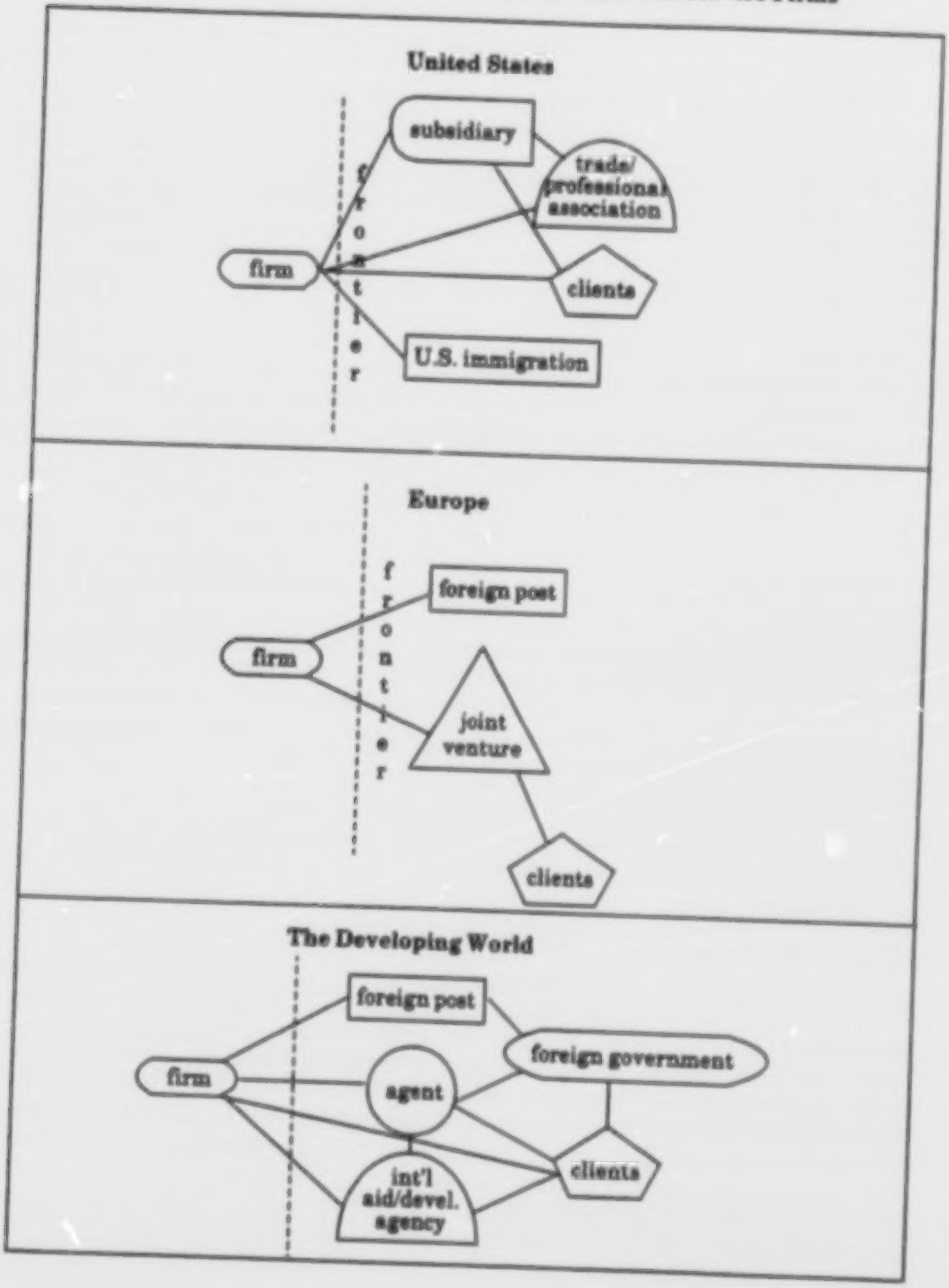

Arrangement "A"
agent
frontier
firm
distributor
agent
Arrangement "B"
agent
frontier
firm
distributor
agent

Figure 5.2
Organizational Links in International Markets: Service Firms


United States
subsidiary
trade/
professional
association
firm
frontier
clients
U.S. immigration
Europe
foreign post
firm
frontier
joint
venture
clients
The Developing World
foreign post
foreign government
firm
agent
clients
int'l
aid/devel.
agency

As some of these efforts are several years old, we expected to be able to identify particular organizations or groups that were emerging as visible, common sources of export information to which firms would turn when confronted with problems. Our key suspects were government organizations and business associations.[4] We expected these sources to be located in the major centres of Toronto, Montreal and Ottawa. We thought it likely that firms situated some distance from these locations would experience more difficulties in making contact and therefore obtaining information.

We were also interested in giving precision to the interactions taking place in foreign markets. Figure 5.1 shows the importance various exporting arrangements could have on the way the firm develops and at the same time is suggestive of differing reasons for export success. Organizational arrangement "A" provides a simplified illustration of the case where the "home firm" is at the centre of exporting efforts. Arrangement "B", on the other hand, illustrates a situation where the foreign element, perhaps a distributor, appears to be the key to the export network and might also account for most of the export success. "A" is more likely to have led to increased differentiation within the home organization in line with the increasing demands of interacting with an a greater number of outside agents, more distant customers and possibly more complex problems to solve.

To assist us in analyzing information related to these factors, we constructed a diagram sketching the important and regular contacts (i.e., the organization set) for each of the firms interviewed. These organizational sets provided a graphic representation of the links between a firm and those organizations or significant others in their environment. They enabled us to improve our abilities to conceptualize and study the interactions, to observe common arrangements, and to focus on the importance of various links between internal actors and external agents. This not only enhanced our ability to identify and understand changes within the organization but it also aided in the identification of "helpful or significant others" active in the environment.[5] In order to maximize the benefits of this approach, and at the same time, minimize any confusion, we have chosen to examine the international and domestic networks separately for both service and manufacturing firms.

II. Organization Sets: The International Component

1. *Foreign Environments: Service Firms*

The export orientation of service firms says much about the operation and structure of the firms. The most visible distinction is between those firms servicing markets in the U.S. and Europe from those servicing markets in the Third World. All but one of those firms active in the U.S. market, for example, have attempted to establish a degree of permanent presence in the market. Three firms have set up a subsidiary company in the U.S. Four others have entered into joint venture agreements with U.S. firms. In two cases, these joint ventures were mainly "paper fronts" designed to improve access of Canadian personnel to the U.S. market. The only firm without a "pied-a-terre" was in the process of creating a subsidiary in order to improve its service to U.S. customers. For the most part, whether a joint venture or a subsidiary, there was frequent contact with personnel from the Canadian office with the U.S. customers and all cases included some "direct selling" by Canadian personnel into the U.S. market.

Whether due to distance, language barriers or professional licensing laws, the most commonly observed export channel among firms selling services in Europe is the joint venture. Though a number of very marginal exporters to Europe maintained "Agents" in this region, the firms most serious about exports to Europe sought to develop stronger relationships with firms operating in areas of primary interest. Four firms had entered into joint ventures with European firms. None of these also sold "direct" in these markets.

The links of service firms in developing countries stand in sharp contrast to those just considered. In these cases, the links to agents and clients alike are generally more tenuous, transient, and numerous. While temporary partnerships with "local" foreign firms are common, long term relationships in these countries and with these local "firms of convenience" are rare. Any stable links with the international environment are more likely to be forged with international funding agencies such as the various development banks and other relevant U.N. agencies.

This behaviour reflects the fact that there is no shortage of things to do, only a shortage of money to do them. Five firms noted the presence and stressed the importance of these links to successful, regular exporting. In their opinion, good links with funding agencies make for good business. It enabled firms to keep abreast of changing priorities in world development and provided advance indications of the types of projects and regions most likely to be next in line to receive favourable treatment. As well, firms with good contacts thought they were in a better position to sell a project to these development agencies on behalf of Third World countries.

Figure 5.2 gives a representation of the various international links of the service firms. The most striking features are the important actors in the environment of these firms. In the U.S., there are three relevant items, the export channel, the client, and the immigration services. This reflects the fact that while most firms create a local presence in the U.S. via a subsidiary or joint venture, much of the work is done by personnel in Canada and involves border-crossings. Hence, the pre-eminence of the immigration service either in obtaining temporary work permits or with respect to entering the U.S.. Another major feature worth noting in the U.S. networks, especially for the high-tech and software firms were professional associations. All the firms noted the value of these organizations for developing one's profile in the marketplace, and in locating clients.

In Europe, the "European partner" is the dominant feature of the international networks as most work is channelled through the European connection, whether this is via the more permanent "joint venture" arrangements or more sporadic contracts through agents.

Among the firms exporting services to the Third World, the major distinguishing feature in the international network are the frequent and multiple contacts with international aid agencies.

Figure 5.3
Marketing Arrangements: Manufacturers

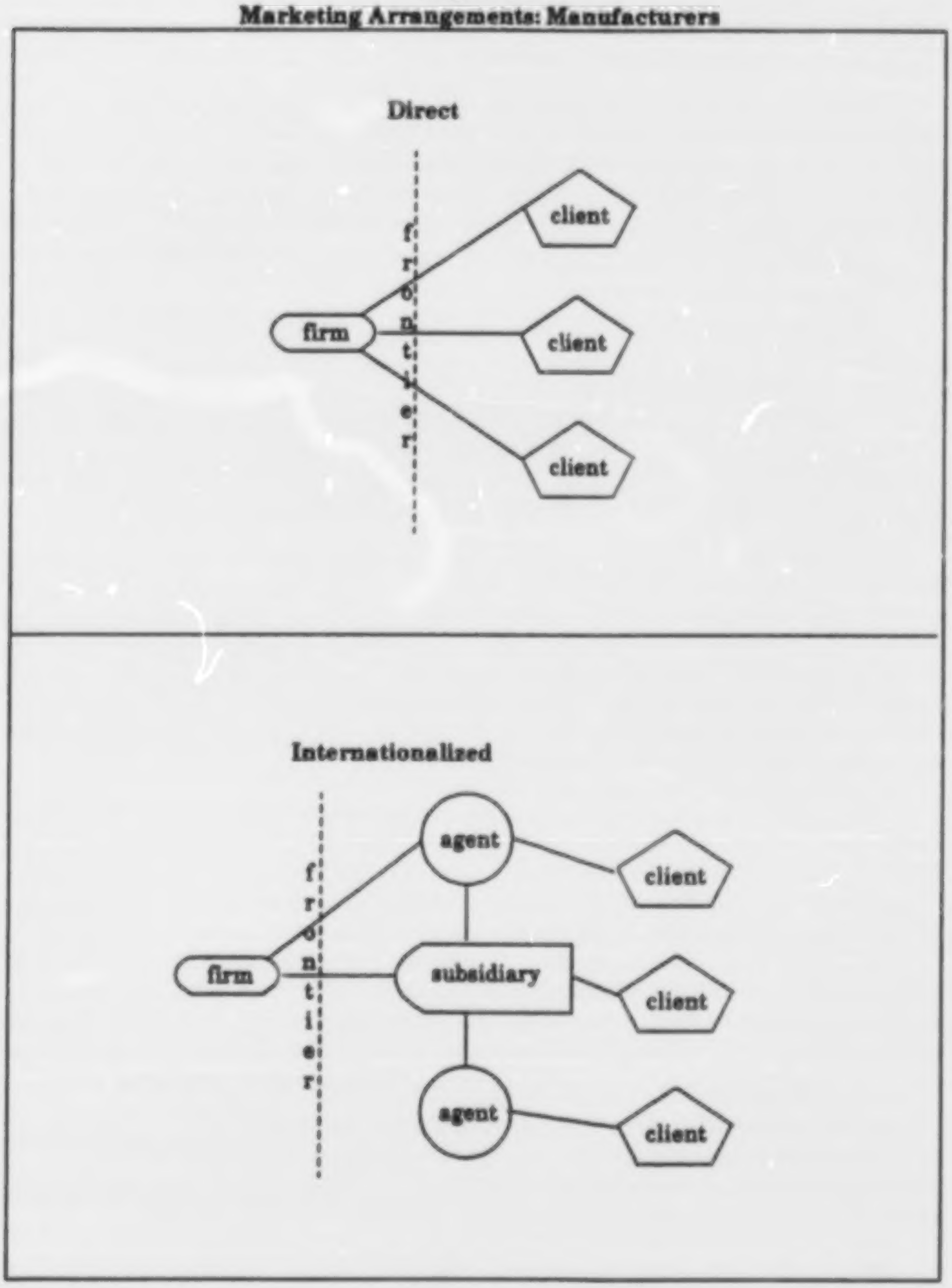
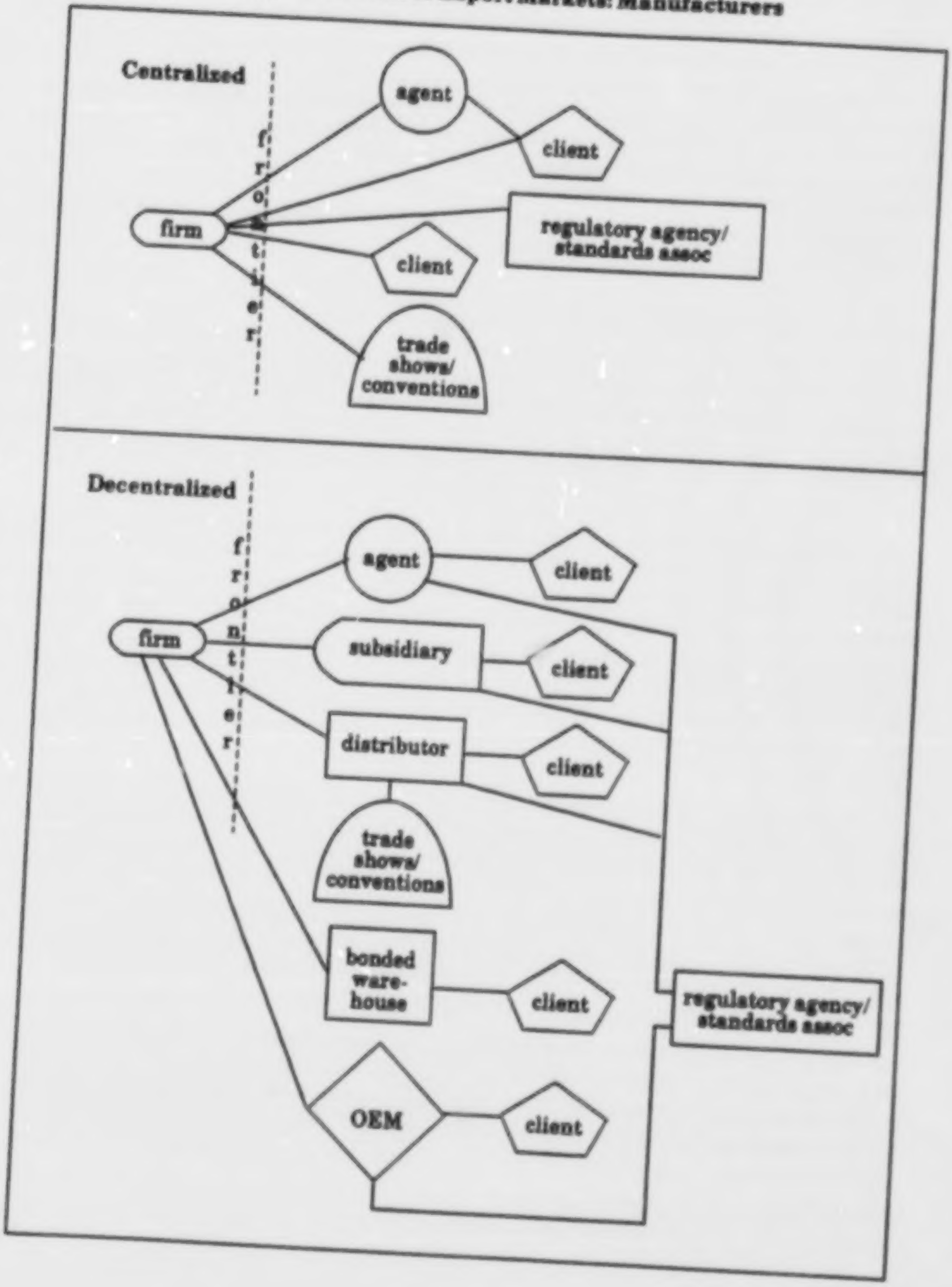

Direct
frontier
firm
client
client
client
Internationalized
frontier
firm
agent
subsidiary
agent
client
client
client

Figure 5.4
Type of Control of Export Markets: Manufacturers


Centralized
frontier
firm
agent
client
regulatory agency/ standards assoc
client
trade shows/ conventions
Decentralized
frontier
firm
agent
client
subsidiary
client
distributor
client
trade shows/ conventions
bonded ware-house
client
regulatory agency/ standards assoc
OEM
client

2. *Foreign Environments: Manufacturing Firms*

The international component of the organization sets demonstrated the degree to which the various elements of foreign sales remained highly centralized or were decentralized. Firms that relied on the direct selling approach, centralized most of the duties and responsibilities associated with exporting inside the Canadian firm. Others firms opted to decentralize all or most of these responsibilities to a foreign subsidiary. These firms would no longer be considered "exporting firms" so much as "internationalized firms" (Figure 5.3). Between these two poles, lay a number of other exporting arrangements which, depending on the resulting interactions between the firm and its foreign clients, could be classified as more or less centralized.

Using direct contact with foreign clients as a primary criteria, the 33 manufacturing firms could be set into three different categories. Firms qualifying as "centralized" would be those that used direct selling only, or those that may have employed agents mainly to sell their goods but where, subsequent to the sale, the Canadian firm had direct contact with the clients. In some cases, this involved further negotiations between the Canadian firm and the foreign client. In others, this contact was restricted to direct delivery and service. Figure 5.4 shows these two arrangements. Of the 33 firms, nine (27 per cent) approached export markets in this centralized manner.

Those organizations qualifying as decentralized either had created subsidiaries that handled foreign transactions, including production, or employed distributors, agents or OEM arrangements in such a way that contact of the Canadian firm with the foreign client was the exception rather than the rule.[6] The possible exporting arrangements that qualify as decentralized are also shown in Figure 5.4. Fifteen firms (46 per cent) structured their export arrangements in this fashion. Of these, three were "internationalized", two used foreign sales offices in conjunction with bonded warehouses for distributing goods in foreign markets, and the remainder used agents and or distributors who handled distribution of the goods to the clients.

The remaining nine firms (27 per cent) employed both centralized and decentralized marketing channels to service foreign clients. That is, these firms exercised significant control over some elements of the sales process in some cases or some markets, and used more decentralized techniques in others. Some of these firms serviced older, established clients directly (bulk chemicals), others sold directly in specific geographic locations (automotive parts, medical devices), still others preferred to sell part of their range of products directly (high-tech electronic), a final group maintained extensive client contact and a firm grip on those responsible for selling their products.

Table 5.1 shows the distribution of the firms using centralized, decentralized, or both approaches in relation to export sales. This table indicates that most firms (65 per cent) with export ratios below the median adopted a decentralized approach to exporting. On the other hand, the largest single category of firms with ratios above the median is that of firms using both centralized and decentralized marketing channels (8 or 50 per cent of firms).

What reasons lay behind the decision to adopt decentralized structures? The most obvious was distance to market which could effect the selection of export channel. Distance decreased the ability to supervise or be directly involved in sales. Depending on the product, distance could also imply the need for shipments of substantial size which favoured arrangements calling for the firms representative to take full possession of the goods. Hence, decentralized distributorships were usually favoured.

Table 5.1
Centralization Factor in Relation to Per Cent Exported: Manufacturers

	centralized	decentralized	both	totals
exports above median (55%)	4	4	8	16
exports at/below median (55%)	5	11	1	17
totals	9	15	9	33

* Of the 33 manufacturing firms, exports accounted for more than 55 per cent of total sales for 16 firms, while 16 firms exported less than that amount.

Another reason was the need for extended or frequent contact with government agencies or other organizations in the foreign market. In the case of lengthy procedures for product approval, or frequent changes to the ground rules within any one market, or the need to have a degree of local procurement or presence to qualify for market entrance, it was usually necessary to have someone close at hand and to give that someone the necessary mandate or suitable enticements. Hence, the need once again for decentralization. With few exceptions, those firms requiring frequent or extended contact with agencies in foreign markets situated responsibility for these contacts inside the foreign markets and adopted more decentralized structures.

In addition to the degree of centralization, the firms also showed wide variations in the manner and degree of sophistication in structuring their export channels as exhibited by the amount of differentiation both within and across markets. Firms that used the identical approach across export markets were identified as exhibiting "low" differentiation across markets. Firms that employed only one channel within a single market were categorized as "low" with respect to differentiation within markets. The questions were whether firms adopted more than one channel to sell their goods within a given market and furthermore, whether those firms that sold in more than one market used different export channel configurations for these markets.

From Table 5.2 it can be seen that more firms used differentiated responses both "across and within" markets. However, the differences between high and low differentiation are most striking across markets where the number of firms that use different marketing channels outnumber those that do not by 2 to 1.

Table 5.2
Differentiation in Sales Channels: Manufacturers

differentiation	across markets	within markets
low	7	15
high	16	18
total firms	23*	33

* Ten firms sold goods in only one market and could not be included.

An obvious question arising from this is whether there were strong differences between those firms that employed a variety of marketing channels and those that relied on only one approach. Table 5.3 shows the degree to which firms used different marketing channels for different markets and relates this to the export ratio of the median firm (55 per cent of total sales exported).

Table 5.3
Differentiation Across Markets in Relation to Exports: Manufacturers

	Differentiation		
	low	high	total firms
exports below median	4	7	11
exports above median	3	9	12
total firms	7	16	23

Most of the firms exporting to more than one market adopted different channels in these different markets (16 of 23 or 70 per cent). If the strategy of employing different channels *across* markets was a vital factor in export success, we could have expected significantly more of the firms with export ratios below the median to also have low differentiation scores. While the small number of observations would not support any firm conclusions, the numbers do point in the expected direction.

This trend is further reinforced when we look at the relationship between export ratios and differentiation within markets. Table 5.4 shows that 11 of 17 (65 per cent) of those firms employing only one channel in a foreign market have export ratios below the median. Similarly, among those firm with export sales above the median ratio, 75 per cent of these employ more than one channel within a given export market. We do not suggest that this should be interpreted as a causal factor of export success. It may indeed be indicative of the SME's desire or need to export rather than a formula for export success; more suggestive of the level of motivation to succeed rather than the formula for success.

Table 5.4
Differentiation Within Markets in Relation to Exports: Manufacturers

	Differentiation		
	low	high	total firms
exports below median	11	6	17
exports above median	4	12	16
total firms	15	18	33

Table 5.5 shows further indication of the relationship between diversified within and across markets. The two firms using a single approach *within and across* markets operate below the median. Similarly, those four firms that used a single channel in an export market, that is, scored low on within market differentiation but high across markets, also had export ratios below the median.

The five firms ranked "high" within markets and "low" across markets used the same differentiated response across all the markets in which they sold goods. They did not vary their approach according to the market, but rather sought to have the same, more elaborate structures in all markets.

It is interesting to note that all of the firms with export ratios above the median employed a differentiated approach within markets and nine of these varied their approach across markets. All 12 firms whose marketing structures varied both across and within markets (the "high-high" category) employed the most differentiated structures within their major markets and simpler, less differentiated structures in less developed markets.

Table 5.5
Differentiation Across and Within Markets: Manufacturers

		Across		
		Low	High	Total Firms
Within	Low	2b 2 0a	4b 4 0a	6b 6 0a
	High	2b 5 3a	3b 12 9a	5b 17 12a
	Total firms	6b 7 0a	7b 16 9a	11b 23 12a

"b" stands for below median, "a" stands for above median of export ratio.

N.B. The median of 55 per cent has been retained for purposes of comparison. When single market firms are removed, six firms below the median and four above are removed from the sample of 33.

III. Organization Sets: The Domestic Component

1. *General Observations and Typologies*

The web of interactions within the domestic network demonstrate several features. First, and most obviously, the importance of the domestic commercial environment varies in inverse proportion to the percentage of exports. Secondly, the importance and scope of governments, federal and provincial, increase in direct proportion with export volume and with distance to market.

It is useful to look at government programs and services as belonging to five distinct classes or groups; namely, federal export programs, provincial export programs, foreign aid, general industrial programs/regulation, and assistance from foreign posts.

The first category is the most prevalent and includes any program or service offered by Departments of External Affairs or Regional Industrial Expansion such as "PEMD" or general market information which is specifically designed to reduce the costs or risks associated with exporting. The second, "Provincial Export Assistance," denotes similar program offers from relevant agencies from Ontario or Quebec. The third category includes those other government agencies that provide assistance for research and development, are involved in setting international standards and international regulatory bodies, provide other technical assistance or act as an advocate for Canadian suppliers. Examples of this would be the National Research Council or the Canadian Centre for Remote Sensing both of which provide expertise to solve problems.

The fourth grouping is comprised of those government agencies with a specific mandate to provide international development aid, or facilitate trade with poorer nations. Examples of these are the Export Development Corporation or the Canadian International Development Agency. The fifth and last grouping reflects the help available abroad, either through the federal government embassies or consulates or the increasing number of provincial delegations abroad.

2. *The Domestic Environment: Service Firms*

The organization set diagrams of the firms in the service sector exhibit four subdivisions or common networks. A central factor in determining the type of organization set was market destination. Another major subdivision was based on the use made of government programs and services. Quite obviously, those service firms that did not make use of government programs had organization sets considerably different and pared down from those that did. These are shown in Figures 5.5 and 5.6.

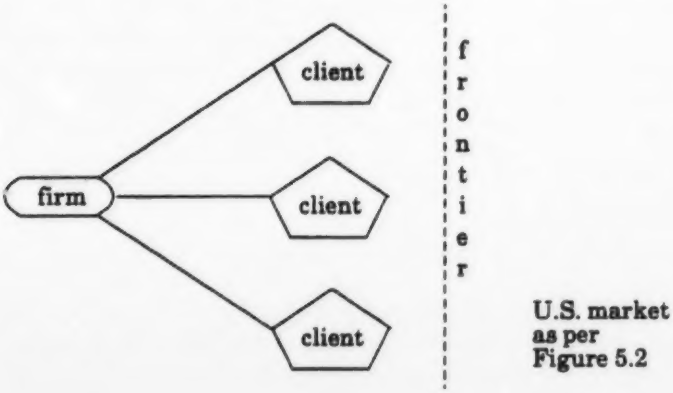
Four service firms (20 per cent) made no use of government programs and services at home or abroad. A common feature of these firms was the major export destination, the United States (Figure 5.5). In all other matters, the firms differed considerably. The firms covered mass communications, computers, automotive parts design and environmental engineering. They ranged in size from five to 135 employees, varied in amount exported from 20 to 85 per cent of gross sales, and employed subsidiaries, joint ventures, agents and direct selling strategies in export markets. Two of the firms sold their services in the European market but only on a very marginal basis.

A second group of four firms (20 per cent) was also discernible by a common export market and the type of government services accessed. This group sold in both the U.S. and European markets. Another common feature, as shown on the right hand side of Figure 5.5, was that they had accessed a wide range of government programs. All had received export assistance from the provincial and federal governments, had enlisted the aid of foreign posts in their exporting efforts. In addition, they had received technical, research or advocacy assistance from the federal government. A further common feature of these firms was the homogeneity of their product. All were involved with the application of advanced electronic technology to various problems. However, once again, the firms varied considerably in the number of employees (10 to 160) and the amount exported (45 to 80 per cent of gross sales).

The third and most prevalent organization set, comprised of 10 service firms (50 per cent), exported their services to the Third World. The grouping on the left side of Figure 5.6 describes the similar features of their domestic inter-organizational patterns. All

Figure 5.5
Service Firms Exporting to Developed Countries: Domestic Network

Without Export Assistance


client
firm
client
client
frontier
U.S. market
as per
Figure 5.2

With Export Assistance

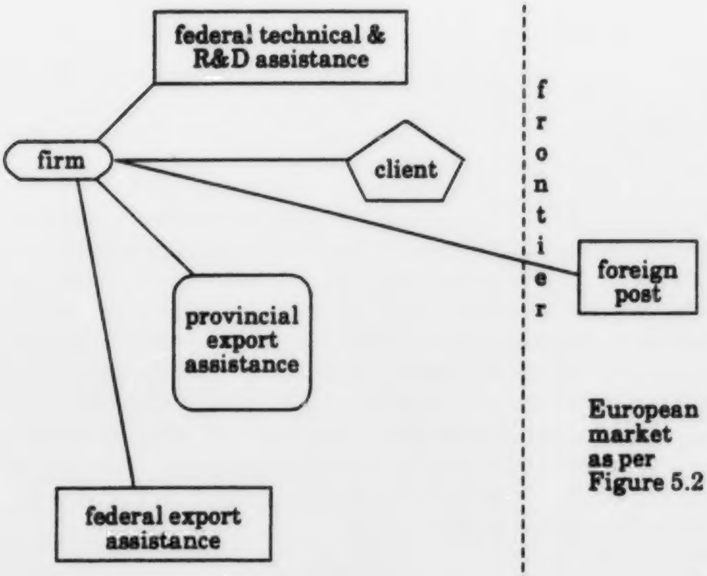
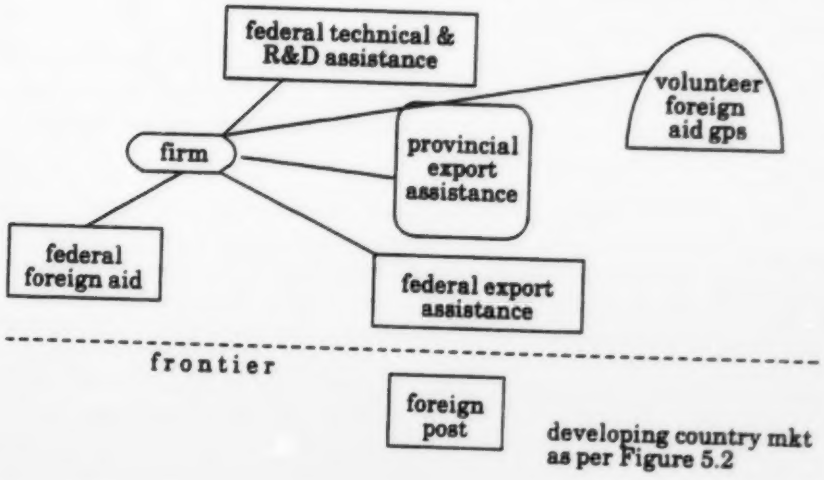
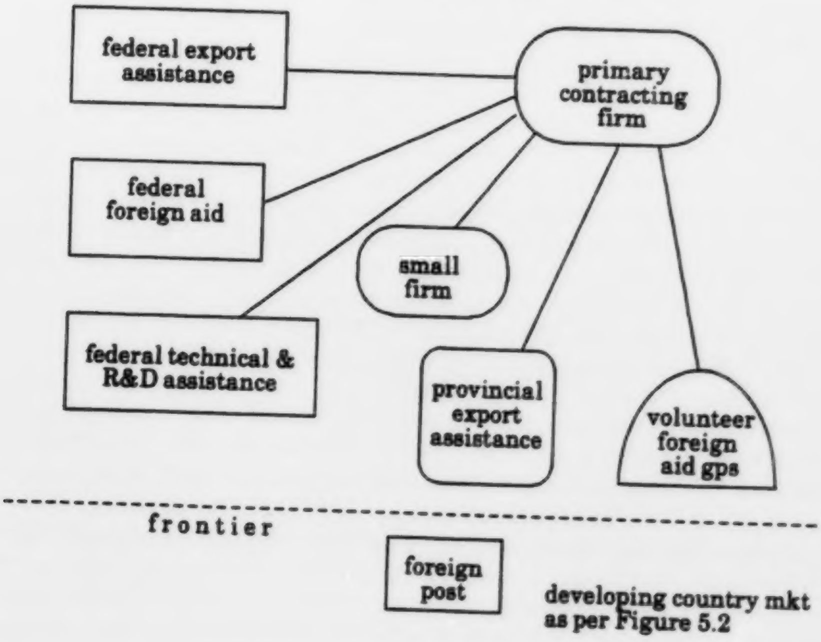

federal technical &
R&D assistance
firm
client
frontier
foreign
post
provincial
export
assistance
European
market
as per
Figure 5.2
federal export
assistance

Figure 5.6
Service Firms Exporting to Developing Countries: Domestic Network

Direct Exporter


federal technical & R&D assistance
volunteer foreign aid gps
firm
provincial export assistance
federal foreign aid
federal export assistance
frontier
foreign post
developing country mkt as per Figure 5.2

Exporting via Subcontract


federal export assistance
primary contracting firm
federal foreign aid
small firm
federal technical & R&D assistance
provincial export assistance
volunteer foreign aid gps
frontier
foreign post
developing country mkt as per Figure 5.2

these firms maintained extensive contacts with government agencies at home and abroad in order to maximize access to all forms of government export assistance. They all had accessed federal and provincial export support programs; made use of the government programs offering development aid; utilized programs offering technical, research assistance and advocacy; maintained regular contact with one or more non-government organizations such as church groups or CUSO; and, they relied on foreign posts in the markets served.

While the organization sets were remarkably similar, the firms themselves differed markedly in most dimensions. They ranged in size from three to 230 employees, covered a wide variety of skills, employed a variety of structural arrangements and exported from 2 per cent to 95 per cent of total gross sales.

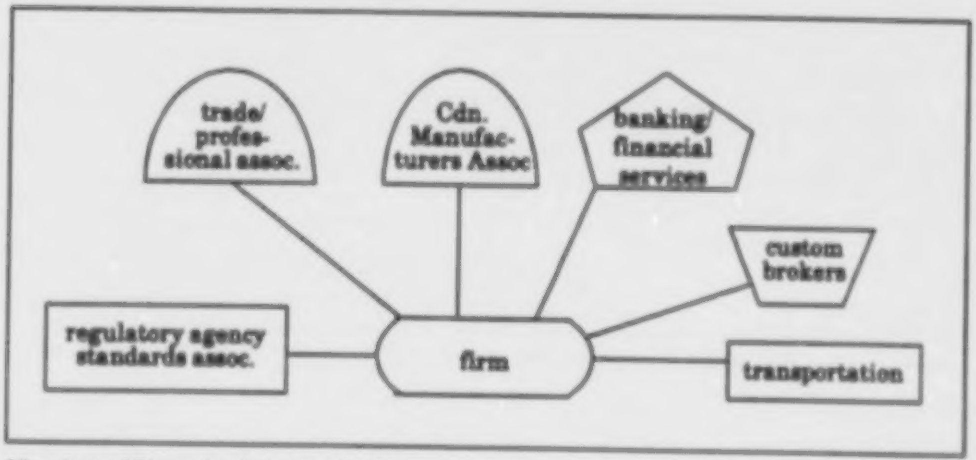
Two other firms, specialized consulting engineering firms, exported primarily through the aegis of larger domestic firms. Their organization sets, shown on the right of Figure 5.6, show the strong dependence on local firms with none of the other contacts and organizational interactions normally associated with exporting to the Third World. The much larger firms which subcontracted their services were, however, tied into such a network.

3. *The Domestic Environment: Manufacturing Firms*

If we consider only the domestic networks of the manufacturing firms in our sample, the firms can be placed into four categories. The first group represents this "private sector only" approach to exporting. It consists of those five firms (15 per cent) that have not received government assistance (Figure 5.7). A common characteristic of these firms is that they have all been exporting for some time and export behaviour predates many of the export assistance programs. While the products concerned range from wood to chemicals, there are no what would be considered new firms or products involved. While these firms export to several markets, the major foreign market for all of these is the U.S. Total exports range from 20 to 85 per cent of gross sales and the number of employees ranges from 30 to 220.

A typical domestic network diagram sans government could be represented as follows. A central feature of the network was transportation facilities. These ran the gamut of modal options (air, mail, trucking, shipping) and many firms dealt with at least two separate companies, depending on the number of markets serviced. Where relevant, firms interacted with testing and standards groups such as the Canadian Standards Association (CSA). All firms employed the services of custom brokers, though the use made of these varied. Depending on the markets for exports and the need for imports in the production process, firms could also deal with more than one customs broker.

Figure 5.7
Domestic Environment: Manufacturers
Not in Receipt of Government Assistance



Number of Firms Included = 5 (15%)
Size Range = 30 to 220 employees

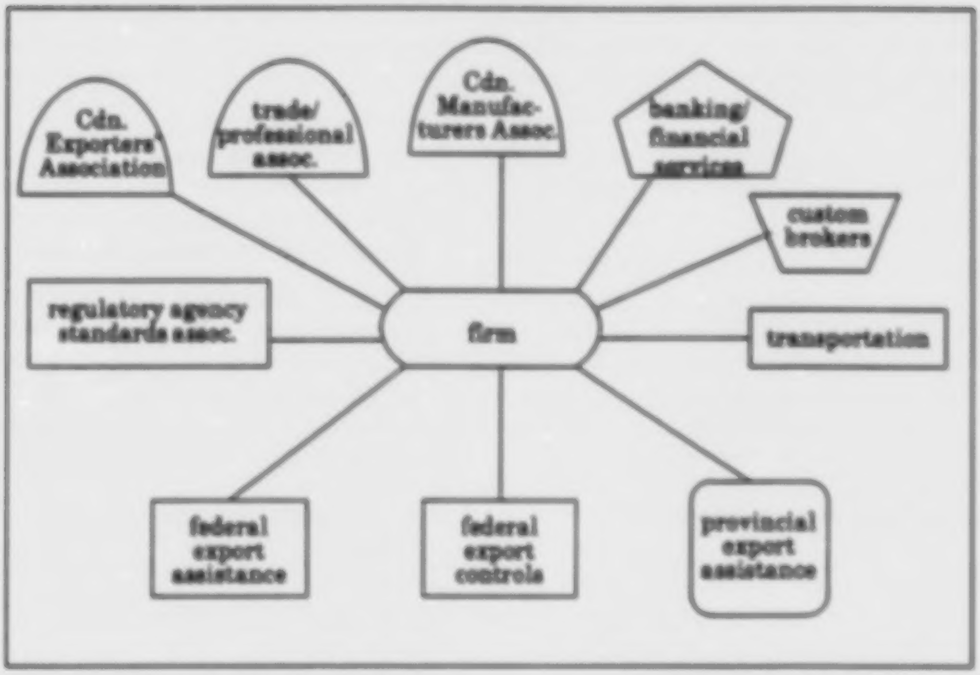
Export Range = 20 to 90%
Sector Homogeneity = high

A minority belong to associations such as the Canadian Manufacturers' Association (CMA) and only 3 of the sample belonged to the Canadian Exporters' Association. More common and represented in the network of these firms was membership in a relevant professional or trade association and in the Canadian Federation of Independent Business (CFIB). The final element in a typical domestic network were arrangements for domestic sales.

None of these firms experienced severe difficulties or problems in developing export markets. All had sold in the domestic market before entering into exports. All found their domestic experience helpful to exporting and employed similar selling arrangements in their markets. The most common source of information were those firms already in their sphere of domestic interactions. For example, if one wanted to know how to transport goods to market they asked those firms doing their domestic shipping for advice and referrals.

The second group of eight manufacturing firms (24 per cent) consists of those firms that sought and received government assistance to develop export markets (Figure 5.8). This included enlisting the aid of foreign posts, receiving provincial and federal financial assistance to attend at trade fairs, visit markets, prepare literature, undertake market surveys (see Chapter 6). All the firms have regular contacts links, daily, weekly, monthly or semi-annually to both the federal and provincial governments. In general, the decision of when and if to participate in trade shows is strongly influenced by the availability of government assistance. One firm also requires export permits for its products.

Figure 5.8
Domestic Environment: Manufacturers
Receiving Government Export Assistance Only


Cdn. Exporters' Association
trade/ professional assoc.
Cdn. Manufacturers Assoc.
banking/ financial services
custom brokers
regulatory agency standards assoc.
firm
transportation
federal export assistance
federal export controls
provincial export assistance

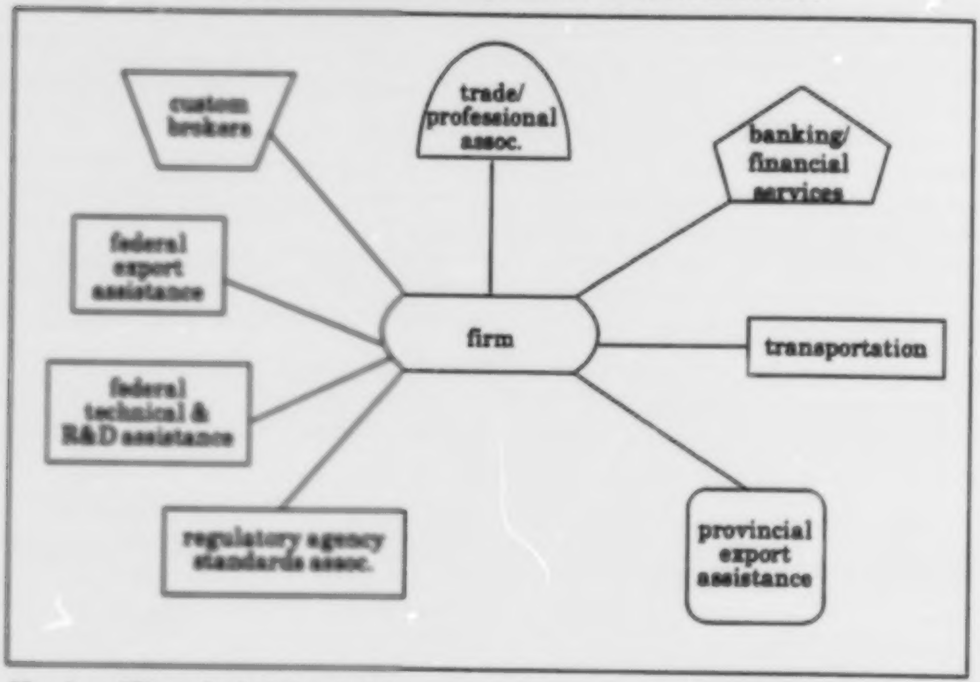
Number of Firms Included = 8 (23%)
Size Range = 10 to 200 employees

Export Range = 2 to 99%
Sector Homogeneity = medium

The firms vary considerably in size, from 10 to 200 employees, and amount exported, from 2 to 99 per cent. One of the firms (plastic products) has been exporting for nearly 15 years, while two others are only beginning to seek out foreign opportunities. In all cases, while domestic organizations were instrumental to the decision to explore export opportunities, with one exception, the major influences and sources of information were located outside of Canada.

Another small group, (3 firms or 9 per cent of manufacturers) had received research and development assistance from the government in addition to the "normal" export assistance (Figure 5.9). This assistance provided by the National Research Council (NRC) ranged from a research grant for refinements to a brass casting and fabrication process, to technical advice and product testing facilities for a chemical firm and an electronics firm. The links created with the NRC in this regard, while sporadic, were also seen as potentially long-term arrangements. The firms involved reported a higher degree of confidence in their products and in their ability to compete as a result. The three firms also relied heavily on the financial help provided by federal and provincial export development programs.

Figure 5.9
Domestic Environment: Manufacturers
Receiving Government Export & Technical Assistance

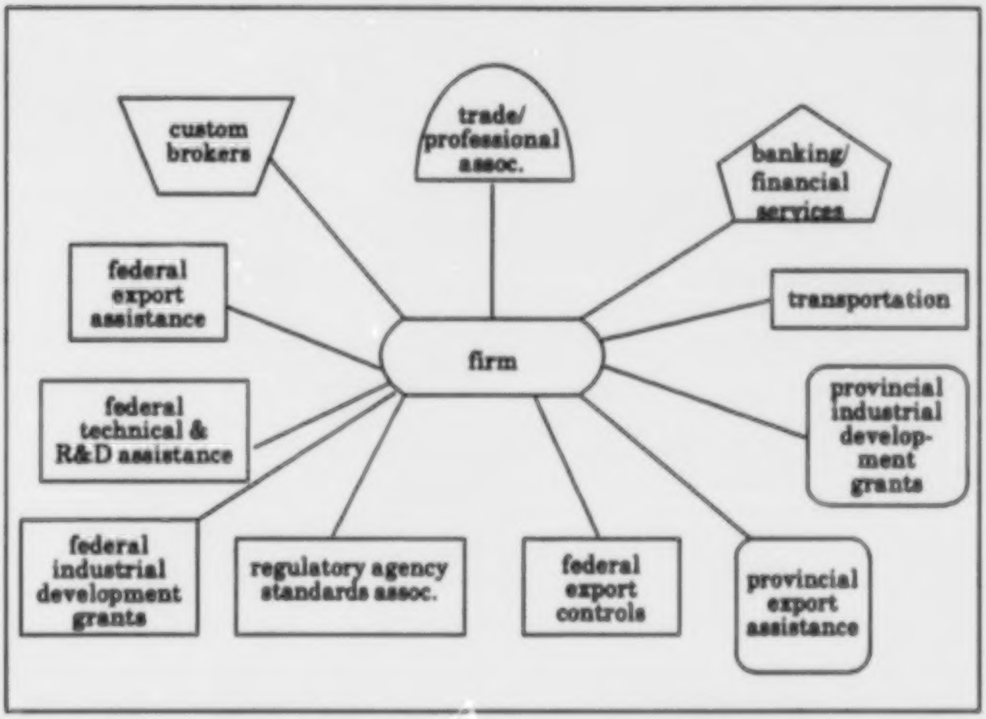

custom brokers
trade/ professional assoc.
banking/ financial services
federal export assistance
firm
transportation
federal technical & R&D assistance
regulatory agency standards assoc.
provincial export assistance

Number of Firms Included = 3 (9%)
Size Range = 3 to 140 employees

Export Range = 30 to 65%
Sector Homogeneity = low

Some firms have regular contact with up to eight government agencies with a frequency ranging from daily to semi-annually. And it is not always the case where the firm contacts the government agency. Frequently government officials check in to see whether the firm has "chosen which trade shows it wants tc participate in this year" or just to inquire how things are going, or to inform them of new programs or services. The reward for these interactions with government can be considerable financial aid in the development, production and export marketing. Though many types of firms are in this category making it appear quite heterogeneous, all but one of the "high-tech" firms in our sample fall in this category. Otherwise, as in the other groupings, the range of exports to total sales and firm size as registered by the number of employees varies considerably (Fig. 5.10).

Figure 5.10
Domestic Environment: Manufacturers
Receiving Many Forms of Government Assistance


custom brokers
trade/ professional assoc.
banking/ financial services
federal export assistance
transportation
firm
federal technical & R&D assistance
provincial industrial develop-ment grants
federal industrial development grants
regulatory agency standards assoc.
federal export controls
provincial export assistance

Number of Firms Included = 17 (53%)
Size Range = 12 to 250 employees

Export Range = 20 to 95%
Sector Homogeneity = low

IV. Concluding Observations

Some general conclusions can be drawn for both manufacturing and service firms from the common sets that emerged. For manufacturing firms, there are few clearly identified information nodes within Canada. The most important elements of their organizational set with respect to learning about exporting are located off-shore. The key to acquiring much of the expertise required is the trade show. Insofar as government agencies help to get firms to these trade shows, they serve a useful function, but they are not in themselves, seen to be a source for valuable information. A recent examination into Canadian government services and subsidies to business noted:

> There are opportunities for small and medium sized companies in export markets. The quality and quantity of market information about these opportunities usually varies by country and by post. Feeding this information from foreign markets to Canadian suppliers has always been a challenge . . .

> There may be an opportunity to develop a private sector sourcing system of foreign market information for small and medium sized Canadian companies in addition to what is currently provided by the federal and provincial governments . . . Canada likewise has a widely disbursed group of Chambers of Commerce and Canadian Manufacturing Association (CMA) regional and provincial bodies. A way of linking the foreign markets and Canadian export capabilities should be examined.[7]

We will deal more with the implications of the absence of significant domestic information nodes in the last chapter. However, the low participation rate of our sample firms in the CMA, and the predominant retail-orientation of bodies such as the Federation of Independent Business or local Chambers of Commerce will hamper efforts to establish such a network. While few small firms belong to the Canadian Export Association, the commitment of this major functional group to a reliance on the "Trading House" avenue for small business exports may also impede the progress in this area.

Certain groupings of government assistance were clearly identifiable, for example, the cluster of agencies providing export assistance. There were also strong links among the various groupings of government services. Certain groupings always brought others with them.

Of the 53 firms in our sample, 44 firms (83 per cent), 16 service (80 per cent) and 28 manufacturing firms (85 per cent) received assistance from export development programs including support to attend trade shows, go on trade missions and visits. Of these, 36 (68 per cent) received considerable assistance ranging from development assistance to export assistance, often on a recurring basis. Only nine did *not* have some degree of dependence for supporting their export endeavours. And there is only one case where a firm received federal assistance without also accessing provincial programs.

As well, the firms receiving and demanding less assistance are older firms that have an exporting tradition that predates the programs now available. They also tend to be in the "standard" industrial sectors. In contrast to this, only one high-tech firm is absent from among those in the dependent heavy-user category.

The organization sets also indicated several other noteworthy features. For the service firms serving the U.S. market, the importance of immigration authorities for controlling access to the market, and the value of professional associations for locating clients and signalling some standing in the professional community is noticeable. There is also a difference in the clientele of firms. For both service and manufacturing firms, U.S. clients are in the private sector[8]. This contrasted sharply with the organizations selling to the Third World. For those firms, it is usual to have to deal directly with foreign government agencies in obtaining and fulfilling contracts. A further observation is that firms trading in the developing countries have significantly different networks. For both manufacturing and service firms, the more one traded with developing countries, the more important the role of the Canadian government. The importance of the Canadian government in securing contracts, in paying for services, or in advocating on behalf of, or negotiating or maintaining standards in favour of Canadian firms is much more evident. It is this role of government in assisting small firms to export that we now turn our attention.

Notes

1. Department of External Affairs, *Promoting Canadian Exports: The Trading House Option*, Ottawa: 1984; or *World Market Report*, Ottawa: 1985; Department of Regional Industrial Expansion, *Directory of Canadian Custom Brokers and Freight Forwarders*, Ottawa: 1986, are just a few examples.

2. Jean-Emile Denis and Helen Mallette-LeFreniere, "Networking for Effective Export Performance by Small and Medium-Sized Firms, A Canadian Perspective," Ottawa: Faculty of Administration, University of Ottawa, Working Paper 86-9, 1986; and Jean-Emile Denis, "Promoting Export Trade Through Trading Houses" in H.V. Kirplani (ed.) *International Marketing Managerial Issues, Research Opportunities*, Chicago: American Marketing Association, 1983, pp. 47-59.

3. Notes from an interview with Joe Janther, Chairman, Association of Export Clubs, Toronto: June 24, 1986.

4. For example, provincial and federal governments offer, free of charge, courses and advisory services for potential exporters. In addition, general business organizations such as the Canadian Manufacturers Association, the Canadian Export Association and local chapters of the Chamber of Commerce have explored ways to encourage exporting and to determine how best to help firms learn about the virtues and vices of export marketing. They also, for a fee, offer courses which potential exporters are encouraged to attend.

5. For a discussion of the importance and usefulness of looking at organizational interactions see: Kenneth Benson, "The Interorganizational Network as a Political Economy," Administrative Science Quarterly, Vol 20, 1975, pp. 229-49 and Charles Perrow, *Complex Organizations*, 3rd edition, New York: Random House, 1986, especially pp. 192-208. For the usefulness of looking at organization sets see William M. Evan, "The Organization Set: Toward a Theory of Interorganizational Relations" in J. D. Thompson (ed.) *Approaches to Organizational Design*, Pittsburgh: University of Pittsburgh Press, 1966, pp. 175-91; and Howard Aldrich and David Whetten, "Organization Sets, Action Sets, and Networks: Making the Most of Simplicity," in Paul Nystrom and William Starbucks (eds.) *Handbook of Organizational Designs*, Vol. 1, New York: Oxford University Press, 1981, pp. 385-408.

6. Contact might occur at trade shows where the producer would appear with the distributor to meet and entertain clients, but not in the normal day-to-day transactions.

7. *Services and Subsidies to Business: Giving With Both Hands*, A Study Team Report to the Task Force on Program Review, March 4, 1985, (Ottawa: Minister of Supply and Services, 1986), p. 255. Henceforth known as "*Services and Subsidies*".

8. Several firms in our sample, however, were indirectly selling to government through private companies supplying the U.S. armed forces. See Andrew McIntosh, "Crown firm's user-fee plan quietly dropped," in the *Globe and Mail*, December 31, 1987, p. B2.

Chapter 6

Governments and Exports

I. The Scope of Government Assistance

The governments considered in this study—Quebec, Ontario and Canada—have a panoply of programs and services designed to encourage, develop, assist and maintain the export capacity of firms. Among other things, funds are allocated:

- for advertisements and other promotional activities exhorting Canadian producers to "think export";
- to gather and disseminate information on foreign markets;
- to subsidize trips of potential exporters so that they might gain first-hand knowledge of foreign markets and make arrangements with buyers;
- to defray expenses of modifying a product where this is required by law or consumer preference;
- to design and print promotional literature;
- to reduce or cover the risks of nonpayment;
- to provide funds or concessionary financing which will allow foreign buyers to purchase Canadian-made goods.

In the words of the Task Force that examined the assistance provided in this area;

> Our current package of trade support and enhancement seems to have stood the test of time to date. We believe, however, that it must be more effectively targetted both in Canada and overseas. We have many departments involved in active export marketing, and a lack of effective

> coordination... The team feels that there are too many and that there is overlap both among federal departments and with the provinces.[1]

The list of programs and agencies is long, while the collection of government publications and reports related to exporting would fill a small library. Many of these programs are both expressly designed for and restricted to small business enterprises. Whether or not the objectives of these are suitably matched with the needs of firms; whether they are meaningful and accessible to small firms tends, at times, to be a contentious matter.[2]

Government assistance to exporters can be divided into two main camps. There are those programs and services that serve to reduce the cost of seeking and entering export markets and there are programs and services that increase the competitiveness of firms in the export market. Reid has commented:

> Export policies aimed at improving the export activity of small firms should recognize that export market expansion and export performance are distinguishable export activities that are not influenced by the same small-firm characteristics. It seems likely that the provision of facilitating institutions that remove the financial and managerial burden of entering new markets would stimulate new export entry among small firms while these incentives that encourage technological sophistication and upgrading of managerial skill are likely to encourage export performance as it is currently regarded.[3]

Most of the programs we looked at were definitely geared towards the former of these activities, that is, stimulating new market entries. We wanted to find out what programs and services were available and how these were received and used within the business community. Keeping in mind that what large government organizations can do best or are most prepared to offer is not necessarily what small firms need the most or can easily use or adopt, we wanted to assess "the fit" between what was provided and what was taken up. We were also conscious that many functions have unintended consequences which may influence or direct behaviour in unexpected ways. The "rules of the game" can skew actions and lead to unintended—even unfortunate—outcomes for all concerned. Our own efforts began with a look at the programs and services governments provide. Then we looked at how these were taken up by the intended recipients.

Firms in our sample had made use of the government programs or services directly aimed at improving product quality and production efficiency and as a direct consequence, also their export performance. A substantial number of them had received government assistance to modernize or expand their plants, adopt new technology, and the like. However, for the most part, such programs as are available in this area are not offered nor designed expressly with the exporting firm in mind. Of those in our sample who received assistance from these other programs, very few were given this on the condition or expectation of enhanced export performance.

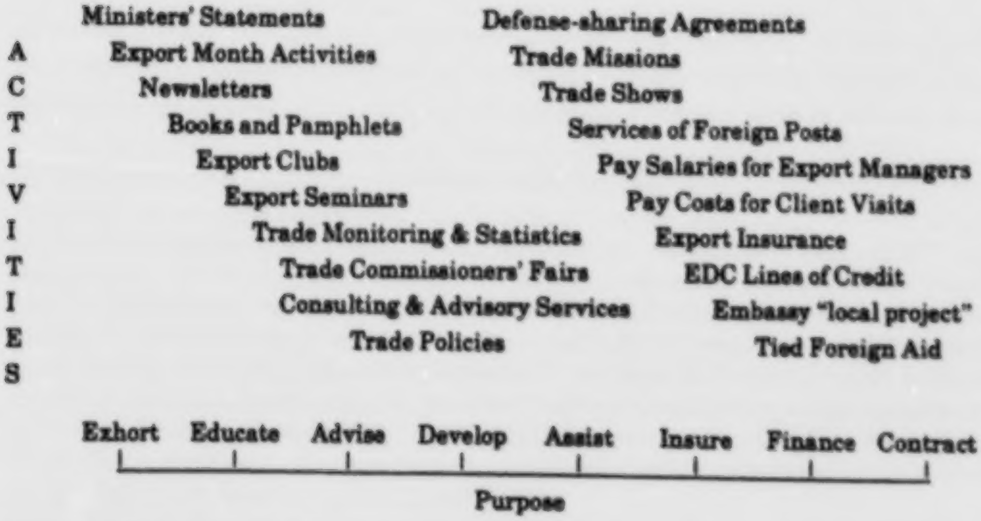
But it is not always easy to separate either the objectives or the effects of "production enhancing" versus "export enhancing" programs. Assistance to develop export markets quite often leads to longer production runs, or greater concentration of expertise at the service level, which in turn can lead to substantial increases in productivity and competitiveness in foreign and domestic markets. Conversely, efforts to improve production facilities or management expertise are often undertaken by management—and supported by government programs—with larger markets (read exporting) in mind. Notwithstanding this overlap of consequences, we limited our interest to those programs and services specifically designated by government sponsors as export-oriented.

II. Examining the Offerings

1. *Offered and Accepted*

One way of looking at government involvement is represented in Figure 6.1 which sets out the observed activities on a continuum representing the breadth or specificity of target of government measures. On the left side, are widely aimed attempts to exhort firms to consider the possibilities of exporting. As we move along the continuum to the right, the actions become more directed towards specific objectives, and the costs of these efforts become more visible and assignable to individual firms. At the extreme right, one finds exports resulting from direct government purchase of goods on behalf of foreign clients.

Figure 6.1
Government Involvement in Export Marketing


ACTIVITIES
Ministers' Statements
Export Month Activities
Newsletters
Books and Pamphlets
Export Clubs
Export Seminars
Trade Monitoring & Statistics
Trade Commissioners' Fairs
Consulting & Advisory Services
Trade Policies
Defense-sharing Agreements
Trade Missions
Trade Shows
Services of Foreign Posts
Pay Salaries for Export Managers
Pay Costs for Client Visits
Export Insurance
EDC Lines of Credit
Embassy "local project"
Tied Foreign Aid
Exhort
Educate
Advise
Develop
Assist
Insure
Finance
Contract
Purpose

For the most part, government assistance is predicated on a high degree of rationality and an orderly progression of decision-making processes and behaviours in the exporting firm. The implication is that most of the programs are designed around the "rational-comprehensive approach" to exporting that we discussed in Chapter 2. Not only do the programs and services *assist* firms to go through many of the stages thought necessary for success, but they can also *require* them to do so in order to qualify for such assistance. In general, this model adopts the perspective that exporting is an incremental stage of business development which follows success in domestic markets.

Though there are many perceived, discrete stages in the rational approach, the bulk of government assistance taken up by small firms tends to centre on distinct activities. Figure 6.2 shows the distribution of manufacturing firms along the same continuum as Figure 6.1. Demand from *small manufacturing concerns* tend to centre on two major categories, advise and assist. The principle activities involved are soliciting advice from foreign posts and obtaining program assistance, both of which are primarily used for *assessing markets* and *locating foreign agents/distributors*. Overall, though government places considerable emphasis on the other activities, the demand for assistance in these from manufacturers is not anywhere as great.

Figure 6.2
Programs and Services Used by Small Manufacturing Firms

Firms	Exhort	Educate	Advise	Develop	Assist	Insure	Finance	Contract
%	0	9.1	69.7	6.1	78.8	3.0	3.0	3.0
#	0	3	23	2	26	1	1	1

Note: number of firms exceeds sample size as many firms use more than one type of program or service.

For the service industries, on the other hand, the pattern of demand is different. Figure 6.3 shows that while there is still a concentration of demand for advice and assistance along the same lines as small manufacturing firms, there is also considerable program take-up on the right end of the spectrum where governments are more heavily involved in the financing of exports. Most small service firms that export and are in receipt of government assistance have had contracts related to development aid or famine relief projects (13/16 or 81 per cent, see Table 6.1, p.102). Similarly, much more use is made of EDC financing and export insurance.

Figure 6.3
Programs and Services Used by Small Service Firms

Firms							
% 0	4.5	54.5	13.6	50.0	31.8	22.7	59.1
# 0	1	12	3	11	7	5	13
Exhort	Educate	Advise	Develop	Assist	Insure	Finance	Contract

2. *Help to Assess Markets*

A key assumption of government is that firms will spend considerable time and effort examining data and conduct an assessment of potential markets as a first step to deciding on a course of action. This, of course, seems highly reasonable as well as desirable. Everyone should think before they act. Governments see one of their major roles to be that of providing information on foreign markets for potential exporters. In providing this information on which to base decisions, governments are doing no less than they themselves might do (or think they do) before taking decisions within their own organizations.

Collecting information of foreign markets can prove an expensive proposition particularly for small firms. Government organizations, on the other hand, are well-positioned for collecting data from a wide array of sources, then sorting, collating and distributing this information to those who need it. The Canadian government, in particular, has numerous publications which provide a variety of information concerning foreign markets.

There are hundreds of books and pamphlets which do everything from explaining the export process (rational-comprehensive approach, naturally), to describing market conditions, government regulations and so forth of the various trading regions in the world. There are enough "*(name your country): A Guide for Canadian Exporters*" to fill the pockets of potential exporters for nearly every market area in the world.[4] These 'handy-dandy little pocket guides' are supplemented by more marketing oriented reports such as the *World Market Report* which "examines sector-by-sector opportunities for Canadian exporters in the world's five principal trading areas" and "provides a 'brief, snapshot overview' of global market opportunities."[5] Few could deny that this is a far more cost-effective way of providing this information than having each firm go out and collect this on their own. However, some could question whether the need is as great as the number of publications would suggest.[6]

Another avenue that governments can and do employ to assist firms is through the trade commissioner service. Federal trade commissioners (and provincial government officials where they have posts), will, *under certain conditions*, provide assessments of local market conditions. Such an assessment might include the availability, price and current source of products and/or a guess of potential demand. With this thumbnail sketch firms can decide whether a market is worth further attention. At least three firms in our sample based their decisions on whether to pursue ventures in these areas on such on-site assessments.

Still yet another means of assessing the potential of foreign markets is to have an on-site marketing study done "professionally." The governments of Ontario and Quebec have programs which will cover up to 50 per cent of the costs incurred for such a marketing study so long as this is conducted by a firm operating "at arms-length."

3. *Help to Visit Markets and Develop Contacts*

Subsequent to, but blending into the support for market analysis, are the programs which assist the possible exporter: to pay a visit to areas where the prospect for exports seems good; to attend trade shows in order to make a personal assessment of the competition; or, finally, to meet and/or finalize arrangements with clients/distributors. It is these aspects of PEMDs, APEXs and ESFs that were most heavily utilized by firms in our sample and most often praised in our interviews.[7]

Governments have concluded from their experience over the years that trade shows are among the best avenues to develop or fortify export markets. Hence, both the domestic and foreign service officials seem quite keen to identify promising trade shows and finding ways to assist Canadian firms to attend at these. Governments will often book spaces in trade fairs which they deem relevant and then "comb the woods" for firms selling products related to the trade show theme and invite these to set up a booth in the "national display area." They also provide support directly to firms attending trade fairs of their own choosing. The firms in our sample that used shows as their major means of making the crucial links with users and potential distributors, often did so on the advice and with the assistance of government.

In addition to helping firms attend at trade shows, officials at foreign posts stand prepared to assist firms to locate, meet, and negotiate with possible distributors/agents. Foreign posts maintain a list of persons or firms that might make suitable representatives for Canadian products and services. On application, the posts will, if appropriate, draw up a list of potential agents for consideration, provide advice in developing a "short list" and then arrange appointments. If asked, government officials will also sometimes be able to offer useful background information as to local customs and "normal arrangements," provide facilities to hold meetings or to setup small, temporary exhibits, and furnish a list of firms offering specialized legal or other assistance that might be requested.

Trade missions are another means that governments employ to bring producers in contact with potential markets, distributors and purchasers. Missions not only allow potential exporters to visit potential customers and meet with prospective agents but also provide an opportunity to meet with other exporters. Essentially, who goes on a trade mission seems to be more of an outcome rather than a decision. That is, the head of the trade mission might have particular persons or sectors in mind, other government actors may be more interested in the overall image of Canada presented by the composition of the mission, each foreign post along the way might have one idea of the sorts of goods that might sell on the market, the domestic departments might have some idea of who is interested in opening markets in the area, and, last but not least, the composition will be determined by those who have the free time to go on that particular venture. With all these factors, it is not surprising that the criteria for selecting firms to go on missions were difficult to pin down.[8]

Finally, on application from individual firms, governments will contribute towards the costs of bringing in potential purchasers to visit Canadian locations. On a broader scale, they also develop "reverse trade missions" where they bring potential clients to visit various firms across Canada.[9]

4. *Other Kinds of Assistance*

We do not wish to imply that we have already, or are about to cover all the areas where governments stand ready to help. At the same time, it should be said that the two areas of government assistance mentioned above, namely assessing markets and locating clients, are, for very different reasons, those services most visible and in demand. For manufacturing firms, the take-up of these other offerings is not nearly so commonplace. However, as government brochures point out, help from one or both levels of government is supposedly available across the whole range of "rational-comprehensive" activities leading to success in exporting.

As represented in Figure 6.1, government involvement with exporting begins with exhortation, followed by education and progresses steadily from there. They sponsor courses that inform potential exporters of the "ins-and-outs" of selling abroad. Ontario provides an "in-house" consulting service that will "after examining [a] company's export interests, capabilities and products . . . help prepare a marketing plan."[10] Furthermore, all governments are able to offer advice on a wide range of exporting activities both at home and abroad, support non-governmental groups such as "export clubs" that promote and assist in the exporting process, and conduct research into problems of exporting.

One item that was difficult to assess was government promotional work abroad. From glossy books to data bases, much money and effort is directed to informing trade representatives abroad, and hopefully potential importers, of the quality and range of products produced in Canada. At least one of our firms traced its first non U.S. export sale to its inclusion in the *Canada Courrier*. On the other hand, we cannot avoid having an uncomfortable feeling that the impact of these might be far less than their cost suggests.

Both the federal and Quebec governments provide financial assistance to defray expenses of establishing foreign offices. Two of our firms had already made use of such assistance while several more were on the verge of applying to these programs. In addition, all governments encourage joint ventures and licensing agreements when domestic production would not be appropriate or competitive. Quebec and Ontario will help with the cost of any necessary product modifications where this is explicitly for export and will, as with the Canadian government, contribute towards the cost of new promotional literature.

As shown in Figure 6.3, the needs of service firms differs from that of the small manufacturing concerns. Recently, governments have begun to focus more attention on the export potential and problems of small service industries. Ontario provides assistance in the form of forgivable loans for feasibility studies and the cost related to posting of performance bonds to accompany bids. A result of much of the Canadian International Development Agency's (CIDA) program activities abroad is the involvement of numerous small firms in the service sector in a variety of Canadian financed projects abroad. CIDA also encourages Canadian manufacturing firms to export through its "tied aid" policies which requires Canadian sourcing of goods. The Canadian government has launched a policy initiative and established the *Office for Liaison with International Financial Institutions* in an effort to enhance access by Canadian firms to projects financed by international agencies.

In addition, the federal government, through the auspices of the Export Development Corporation (EDC), provide export insurance or financing through agreed Lines of Credit to governments without which sales of goods or construction projects would likely not have occurred. Both Ontario and Quebec have programs to assist in the financing of exports as well.

Table 6.1
Number of Firms in Receipt of Government Assistance*

	Type of Assistance			
Type of Firm	No Export Assistance	Foreign Posts Services	Export Development Programs	Industrial Development Programs
Manufacturing (33)	4	23	26	21
Service (20)	4	12	15	11
Total (53)	8	35	41	32

* Number of firms exceeds sample size as many of the firms received more than one form of assistance.

All told, there is considerable public financial support provided for the development of export markets. The programs offered have grown with the participation of the community. Table 6.1 gives a breakdown on the number of firms that have received various types of government support as they went about exporting. It is the rare firm that has not availed themselves of this assistance. Fully 85 per cent of the firms are in receipt of some government assistance for exporting. Nonetheless, perhaps because of the popularity, we could sense a growing crisis in the future direction for export assistance. As we were concluding our interviews for this study we noted a resolve to modify the form and direction of certain programs, particularly in Quebec. However, before assessing the need for changes, it would be useful to look at more aspects of program delivery.

III. Means to Make the System Function

1. Assumptions in Government Decision-making

Government officials, just like anyone else, need tools to help them make decisions when resources are constrained. One of the central elements in deciding whether a firm merits the scarce time and highly sought after program resources is an assessment of probability of success. Since governments are not often in a position to judge the competitiveness of a product in the market place, they must rely on other means of assessing the export potential of a firm. A key concern is whether the yardsticks in use are adequate or suitable for the task at hand.

The indicator most often employed is previous sales *track record* at home and/or abroad. However, two trends from our research suggest that this yardstick is becoming less and less appropriate. The first, as shown in our sample, is that more and more products coming onto the market place—perhaps those very products with the highest probability of success for export sales—demand access to markets far larger than those available within Canada.

Using *track record* as a central criteria for allocating program resources obviously works to the disadvantage of those firms that must sell in export markets from start-up if they are to have sufficient sales volume to survive. These firms invariably do not have a *track record.* While few in number, these firms, which often compete in the quick paced, two-to-three year product life-cycle, hi-tech sectors, are usually already operating under conditions which severely tax their limited financial and managerial resources. Such firms must both grow and sell abroad at the same time, when often their expertise is in neither selling nor management, but in technical know-how. Prolonged delays in accessing government programs often diminishes the one edge these firms have against their competitors in the marketplace—time.

Secondly, *track record* can just as easily be a misleading indicator of export potential. Eight of the successful exporting manufacturers we looked at developed products that literally transformed their business image. In two cases, new product development saved them from business failures. In all cases, what they exported and to whom was considerably different from what took place in the domestic market. In short, domestic performance is not necessarily an indicator of export potential.

Another shorthand method used to decide whether and how much to help a firm is to assess the way that the firm wishing to access government export assistance is proceeding. Has the firm done all the necessary homework—that is, *proceeding rationally*—prior to requesting government assistance? Is it realistic in its assessment of the ability to service export markets? Has it examined whether it is reasonable to sell goods to this region and so forth? If the official responsible feels such is not the case, then they might delay or fail to send a response in the hopes that the applicant will forget and go on to other things.

Frequently, given equal or no track record, attention and/or funds will go to those who demonstrate the most *perseverance* and determination. Some trade commissioners in particularly hard-pressed posts have been known to resort to a polite "file 13" (an automatic request for more information before proceeding further) to resolve their priorities. This is especially likely when the request resembles a stab-in-the-dark, world-wide appeal for information, as opposed to a well-thought-out plan for approaching likely markets. According to one government trade official:

> If I have to make a decision where to spend my time, there are certainly better things to do then run around finding out information that might not even be looked at. If they are really serious about developing this market, they'll write back. Then maybe we can talk about potential.

Once again, as a yardstick, it will suffice if one's assumptions about exporters are correct. Where it is assumed that exporting comes later in the growth process, one might expect sufficient slack in managerial resources (or a suitably high priority) for the firm to *persevere* with its enquiries. From the point of view of the trade commissioner, a firm that canvasses a large number of foreign posts has asked for more work than is necessary or warranted. From the point of view of the firm, some posts take the time to be helpful and some don't.

Evidently, firms have different expectations of the trade commissioners while trade commissioners have different assumptions of appropriate behaviour and means of export market development within firms. One outcome from these differences could be that firms are directed to markets where trade commissioners have the time to answer enquiries, which may not necessarily represent the best exporting opportunity.

2. *Three Approaches for Filling in the Blanks*

In addition to "*track record*" and "*approach to exporting*", government personnel abroad may employ other sources of information to help in the decision with respect to the allocation of time and resources. In deciding who should receive what kind of assistance, all three governments in question seem to rely on different sources of information which complement the emphasis on one of the above factors.

Quebec has the smallest exporting industrial base of the three governments. Not only is the potential pool of exporters smaller, but the concentration of these around and between the two centres of Montreal and Quebec City make it still possible to function more as a "community". That is, there is within government and the small business sector a fairly reliable sense of "who is who" and "what is happening" in the community. While not infallible, it is still possible to obtain information concerning any given firm's future intentions, managerial abilities and quality or uniqueness of its products.

This ability to check out any firm seeking assistance complements the emphasis placed on *track record*. A request for assistance from a foreign post normally triggers some recall of the history (or lack thereof) of said firm. A telex or phone call to government offices in Montreal or Quebec can fill in any gaps in information required to assess the appropriate allocation of time and resources to the request.

The dispersion and size of potential exporters in Ontario make a community awareness approach infeasible. At the same time, the concentration of services for both small business firms and potential exporters under one ministry enhances the ability to coordinate the overall policy for assisting small firms wishing to export. Ontario officials tend to rely more on the form of the *approach to exporting* taken by the firm seeking assistance. The prime criteria employed by the foreign posts is a referral from Ministry offices in Ontario. A request for assistance direct to a foreign post will usually result in a request back to the firm to contact a local branch of the Ministry in order "to facilitate" any assistance.

The reason for such requests is simple. It becomes the duty of the local Ministry staff to consider the readiness, resolve, ability and potential of the firm to succeed in foreign markets. Ministry officials will attempt to take the firm through a assessment of the decision to export based on the stages outlined in the rational model. In addition, while not being dogmatic in its stance, and where this seems feasible, the Ministry will try to steer novice exporters to the closer, more accessible U.S. market first. When local officials are convinced of the soundness of the request for assistance, they will confirm the request with their own telex.

The Canadian government obviously has neither the benefit of community nor unity in program delivery or mandate. It is neither easy to check up on a firm nor usual to refer it to a local office first. Hence, it must rely on the perceptions formed from the cues at hand in deciding where best to allocate their efforts. There are a number of books as well as an emerging computerized data base available to help them check on the *track record* of the firms. In addition, the form of the request will also provide information on the *approach being followed*.

A telex is frequently interpreted (rightly or wrongly) as a more meaningful and important request. Having a telex may also project an image of more advanced stage of business development. Letters are examined for an indication of the specificity of the request which suggests how much homework the firm has already done in assessing markets before seeking assistance. However, at busy times or in busy locations, the most suitable measure of a firm's readiness to export is *perseverance*. Whether and how quickly a firm responds to a request for more information can be the most salient cue on which to base a decision.

3. A Last Example of System Overload and Mismatch

The flow of requests for assistance in the form of letters eventually is transformed into people on the doorstep looking for introductions to the local business community. Whether they know it or not, trade commissioners are the gate-keepers to one of the essential ingredients to success in exporting, good local representation (see Chapter 4, 7). Good representatives are not only essential, but they can also be difficult to find. Buried in the long list of potential agents and distributors maintained by foreign posts are good and bad, as well as many mediocre candidates.

Some posts have neither the skills nor the time necessary to sort out the good agents from the bad. Hence, potential exporters seeking to locate an agent are given a "laundry list" of persons who have expressed an interest in representing certain products and so forth. In such cases, it is up to the potential exporter to weed through the persons recommended and choose the most likely candidate. Other posts, or perhaps some representatives at other posts, are aware of which persons on the list would be good agents and which would be better off avoided.

Just as there is a wide variation in the quality of potential agents and variations in the perceptions of the foreign posts, so, too, do we find variations in the abilities of potential exporters. Exporters can vary in their commitment to foreign marketing, the quality of their products, and their view to the role of exports, (e.g., selling surplus stock). That is, they may not be ready, or willing to export. It is not unheard of for Canadians—particularly in the popular vacation spots—to ask trade commissioners to arrange exploratory meetings with local agents simply as a guise to preserve the tax deductibility of a vacation.

The challenge for the trade commissioner seeking to maximize exports is to get the good agents together with the good or serious exporters. Several firms that we interviewed indicated that they had to go through two lists of agents before they were satisfied with the calibre of persons offered. Others, after meeting a list of unsuitable potential agents provided by the foreign post struck out on their own to find the kind of local agent they were seeking. Whether this was a case of the foreign post being unable to tell a good agent from the mediocre, or whether it was a case of the post misreading the seriousness in the intentions of the Canadian firm cannot be determined. However, it is the case that where persons in posts are aware of might be very good agents, there is also the concern that they not burden these individuals by setting up time-wasting meetings with unlikely, or unwilling exporters.

Those firms that did request a second list of agents from the post found the second group of candidates to be eminently superior to the first. Whether this was because the post took more time and care in selecting candidates from their lists, or whether they knew all along who were good and who were bad but were unsure of the firm, is again, impossible to determine. In either case, it would appear that the onus is on the potential exporter to decide if, among the names supplied, there is an appropriate representative. If there is not, then perhaps a bit of perseverance will yield a finer field of names on which to base a selection.

IV. Government Assistance: A Client Perspective

1. *Proliferating Publications?*

One of the features which struck us at the outset was the vast number of publications available and the amount of information provided to potential exporters by governments. Broadly speaking, we were able to discern three main types of government publications. The first contains both general and more particular information on foreign markets (e.g., population, climate, social customs, notable government regulations). The second, describes how one should go about exporting and provides details on the government programs and services available to assist firms to export. The third describes the skills or products to be found in—and available for export from—Canada. The first two are aimed at the domestic exporters while the third are meant to inform potential importers and government trade commissioners abroad of the range of products and services available for export.

Oddly enough, we had considerable trouble finding any in our sample who made use of the first two types of publications as they went about the business of exporting. Even those who tended to be most "rational" in their approach to developing export markets had not relied on government publications in assessing and selecting markets or in deciding how to go about exporting. Granted, many of these publications were not available when some of the firms first began exporting. Nonetheless, few yet knew of their availability. Some firms did volunteer favourable comments after scrutinizing the contents, saying they would have found such information, particularly phone numbers of who to contact, useful when they began exporting. Others felt that most of the information was far too general and did not address the fundamental and specific problems encountered by exporters.

Ironically, we found a higher recognition factor and far more copies of the third type of publication during our research. Firms were more charitable in their judgements of booklets that provided them with free advertisement. In the end, we were left pondering whether producing booklets was something that governments excelled at, but unfortunately this skill was did not seem to be addressing a real need in the SME community. In that case, we were left with another dilemma, namely, where were all the books and pamphlets going? These findings are similar to those already noted by Denis and Depelteau.[11]

2. *Program Take-up*

For manufacturing firms, the most frequently used government programs were those that helped to defray expenses to participate in trade shows, to visit foreign markets or, to bring potential clients into Canada. Opinion was mixed as to the ease with which the programs involved (PEMD, APEX and Export Success Fund from Canada, Quebec and Ontario respectively) could be accessed. While most felt the application procedure was reasonable, several felt that the "pay back" provisions of PEMD added unnecessary post hoc complications and paperwork.[12] Several others complained about the limitations and regulations concerning the use of such programs. Nevertheless, these three programs accounted for the largest share of government aid provided to manufacturers in our sample.

The services industries, too, found uses for "PEMD like" assistance for visits abroad and for attending trade shows. In general, for reasons to be explored below, they were also more able to make use of programs offered by the Export Development Corporation and the Canadian International Development Agency. Much of the "Industrial Development Assistance" received by service industries (Table 6.1) came in the form of Research and Development assistance from the National Research Council (NRC), the Canadian Centre for Remote Sensing (CCRS) and the Department of Communications. This was usually directly related to problems encountered in the export environment.

Table 6.2
Frequency Distribution of Firms Receiving Government Assistance

Type of Assistance

Type of Firm	None	All Forms	Industrial Development			Export Development		
				further aid from				
			Alone	Export Programs	Foreign Posts	Posts Only	Programs Only	Posts & Programs
Manufacturing (33)	3	15	1	4	1	2	2	5
Service (20)	4	8	0	2	1	0	2	3
Total (53)	7	23	1	6	2	2	4	8

Tables 6.2 and 6.3 show the frequency distribution and percentages of the number of firms in the sample that had received various forms of government assistance. Of particular note are the number of firms that have received all forms of assistance. More

than 43 per cent had received both industrial development assistance and export development assistance. This high number raised some concern with respect to growing dependency of firms on government.

Table 6.3
Percentage Distribution of Firms Receiving Government Assistance

Type of Assistance

Type of Firm	None	All Forms	Industrial Development			Export Development		
				further aid from				
			Alone	Export Programs	Foreign Posts	Posts Only	Programs Only	Posts & Programs
Manufacturing (100%)	9.1	45.5	3.0	12.1	3.0	6.1	6.1	15.2
Service (100%)	20.0	40.0	0.0	10.0	5.0	0.0	10.0	15.0
Total (100%)	13.2	43.4	1.2	11.3	3.8	3.8	7.5	15.1

3. *A Mixed Review of Government Services*

In comparison to the number of firms that made regular use of government programs and services at home and abroad, relatively few nominated the government for "the most useful organization" category. It was not so much that most of the firms had come up against a refusal of a discretionary grant at a crucial time, though that might partly explain the attitude of one firm. Rather, there was a feeling that one could not rely on governments to consistently "deliver the product."

A fundamental strength (sometimes weakness) of bureaucracies is supposed to be the homogeneous level of service provided. It may not be superior or personalized, it may be geared to the lowest common denominator, but the structures and rules are there to assure that service should at least be consistent. Nevertheless, if there was one common complaint expressed about the services provided by government—both at home and abroad—it was "*inconsistency*." With respect to foreign posts, some firms complained that legitimate requests for information often were completely ignored by some posts; others said that lists of potential agents or distributors were far below acceptable standards; for others, the knowledge of local market conditions by Canadian trade commissioners (as opposed to locally engaged staff) was deemed to be grossly insufficient.[13] We have already discussed the reasons why some requests may go unheeded and the factors which can affect lists of distributors. However, it would be useful to consider further reasons which might explain these variations in the quality of service.

On this point, it is illuminating to note the different approaches employed by the three governments abroad. Both Ontario and Quebec have a similar division of labour. The "trade commissioners" manage the relevant staff in the missions and allocate responsibilities. Staff from the provinces are normally concerned with meeting foreigners who are considering investment opportunities back in Canada and in setting the overall work plans for the trade section. As far as Canadians wishing to sell abroad are concerned, they deal primarily with the locally engaged staff. The head of the trade section might meet briefly with the representative from the Canadian firm before directing them to the locally engaged person that specializes in the area/sector concerned. The rationale behind this division of labour is that each person is then dealing with the region, government regulations and social customs that they know best. Provincial staff will only be involved on matters concerning defence or other government procurement matters where the visible support of the government might be important to the sale.

The federal government, on the other hand, adopts a different procedure in most posts. Both trade commissioners and locally engaged staff are assigned sector responsibilities. Thus, it is possible to encounter a trade commissioner who has only just arrived in a country or region and, unfortunately, is not even remotely familiar with many of the sorts of things a person seeking to export would need. Furthermore, responsibilities at a post can be reassigned on a regular basis as new trade commissioners with different skills come on strength. These frequent reassignments of responsibilities must have some effect on the level of service provided. That this is the case is attested to by the comments of the Study Team who referred to the Trade Commissioner Service as:

> a formerly effective government service that needs to be looked at closely to ensure it is ready for the new trade era.[14]

The Study Team cited an assessment done by the Canadian Export Association and the Chamber of Commerce which laid the blame for this deterioration on poor morale resulting from confused objectives, insufficient time allocated for commercial activities because of new roles, and a preference for hiring persons with political science rather than business backgrounds.[15] The report continues:

> Private sector companies feel that the staffing of the Trade Commissioner posts has tended towards trade generalists rather than marketing and sales personnel as was the case in the past. EAC [External Affairs] has attempted to fill this gap to some extent by hiring local personnel with specialized country knowledge to provide more information on these markets. More of this will be required, particularly if we wish to provide market information to small and medium sized companies in Canada, who need this knowledge.[16]

Several of our interviewees agreed with this last point. In the words of one:

> You've just got to hang in there till you get past the Canadians to the locals. They're the ones that can really help you. They know what is going on, who to see, who your competition is and all of that. It's usually a waste of time to talk to a Canadian Trade Commissioner.

The evidence points to problems more deep-rooted than a change in the educational skills of trade commissioners, after all, given the minimal recruitment in this decade, the proportion of new recruits must be minimal.[17] Rather, the problems seem more related to job assignments and expectations, definition of performance levels (i.e., what must a trade commissioner now know to provide the services required by SMEs), and rotation patterns. Finally, in our limited observations we saw little duplication of effort among federal and provincial officials serving abroad. As noted above, the provincial offices were more able to tie back into a domestic network in working with small firms overseas.

When working with the domestic departments, the inability to find the information needed swiftly and easily was cited as a major factor. After being shunted to three or four places and not getting any closer to the information required—sometimes even going in circles—many firms just gave up in frustration. Some others complained that the information provided by government was too general—they wanted to know the best way to ship goods and not be sent a booklet listing pages of firms that had volunteered their names as someone who might be able to do it. They were not looking for a repository of names—"the phone book does that"—but a referral service that guaranteed some authenticity to the claims made.

On the other hand, there were some surprises with regard to the personalized level of service that can occur. Once again, several of our firms could trace their success in various markets around the world to the movement of a single, particularly knowledgeable, sympathetic trade commissioner. Still others could not speak highly enough of persons in government agencies that would always be able to find the necessary information. The problem was it was difficult to say in advance what kind of reception or service could be expected at the other end of the telephone or telex. It was great when the people on the other end knew their job and could do it. Unfortunately, these persons moved on, leaving an anonymous and untested official to answer the phone the next time. Quite often, the new person at the old number was no longer responsible or knowledgeable in that particular area.[18] After an exposure to exemplary service, it was often difficult as well as disappointing to the firms involved to make do with a mediocre or worse response to a legitimate request for services. This inconsistency in the quality or usefulness of the response, both in domestic and foreign agencies, accounted for much of the mixed reaction to government assistance.

4. *The Export Development Corporation*

One of the most bewildering aspects of our research was the wildly varying opinion of the Export Development Corporation (EDC). One official in a major association was scathing in his review of EDC's approach to small business. He quipped, "If they are so damn keen to help, why do they charge the small firms more for their insurance?"

But the comments were not all negative. Three persons praised the work done by the EDC, notably their regional representatives, in encouraging and assisting SMEs to export. But who did they help and, more importantly, who didn't they help as they went about their business?

The problem between the EDC and many of its critics are the ground rules for its "Global Comprehensive Insurance Scheme." To quote from an EDC publication:

> [This] traditional insurance workhorse . . . protects exporters against non-payment of an export sale resulting from both commercial risks (buyer insolvency, default, contract repudiation or termination) and political risks (difficulties in transferring funds out of a country, non payment due to war or rebellion, and the cancellation of export or import permits).
>
> *Except under exceptional circumstances, the Global Comprehensive Insurance program requires each policy holder to insure all of its export business with EDC.* In this way, the program achieves the proper combination of high business volume, broad spread of risk, and reduced administrative costs which EDC is able to translate into lower premiums for exporters.[19]

It is the underlined parts of that statement that lead to the disaffection with the services of the EDC. As one exporter put it:

> I've been doing business with some distributors for a decade. It's all done on open account and there is little risk involved. Over the years, my profit margin has been trimmed to the absolute minimum. There is just no percentage left for the EDC.

Still another exporter put it this way.

> I was doing $4,000,000 dollars of good, sound exports. I knew my distributors and had faith in their ability to pay. Then I decided to open up a new market, but there was a greater element of risk so I thought I should have some insurance. But to insure $100,000 worth of new business, I would have had to insure the other $4,000,000! You'd have to be nuts to go for a deal like that!

When another exporter was challenged to say whether it was fair for the EDC to insure only those cases where default was highly probable he came back with a telling retort.

> But of course if that were the case I might sympathize with them as well. But it isn't. They not only want to have their share of your cake, but they want to eat it to. They're perfectly willing to insure all my old safe customers, without giving me any say as to whether the risk they're assuming is too low, but they still maintain the right to refuse sales to countries because the risk of nonpayment is considered too high, and believe me they do.

Some persons that we interviewed felt that the EDC could and should do much more to encourage export growth. While small- and medium-sized businesses might be "the largest single block—78 per cent—of exporters seeking EDC's insurance and financing support in 1985," or were "nearly half of the companies benefitting from EDC financing," there was a general perception that they accounted for a very small portion of dollar value of EDC activities.[20] It would take very many $40,000 claims to make up the $5.2 million paid to MacMillan Bloedel in 1985.[21]

Figure 6.2 above showed that only one manufacturing firm insured its sales through EDC. That firm was both new to exporting and had only two off-shore clients and thus experienced none of the problems just mentioned. As for the take up rate by service firms, there is a reasonable answer. Most of their exports were on a project by project basis where the cost of insurance was built into the bid, they were destined to countries where the risk of non-payment was real, and they represented instances where insurance could be limited to that specific project. Thus, there were not only few complaints, but sounds of praise for the services offered by EDC. We were left with the impression that for those selling services to the Third World, the EDC was a boon. However, there was still much ground to cover if the EDC was to help the small manufacturer.

V. Unintended Outcomes of Government Assistance

1. *Equalizing Opportunity*

A central concern when governments provide financial assistance to one firm, is whether they are not placing other firms already competing or about to compete in the same market at a disadvantage. Or, to look at it from another angle, in helping one firm, is government obliged to offer this assistance to firms in similar circumstances.

Such questions may not arise when governments assist firms to attend trade shows or other similar events. However, there is a range of activities included in foreign marketing which provide grounds for calls for equal treatment. One example which illustrates the potential for this is offering financial assistance to prepare promotional literature.

The Government of Quebec responded to what appeared as an innocuous and reasonable request from a firm to provide financial assistance for the preparation of a catalogue of its products for distribution to potential clients in the United States. The following year several more firms operating in the same sector and selling its goods in the same area applied for, and were granted, similar assistance. As the money put forward by government represented a sizeable portion of the salary of one salesman, it is not surprising that eventually nearly every company operating in that sector considered they were entitled to receive similar assistance.

What started out to be a single expenditure of $25,000 turned out to be a major drain on regular program expenditures at the expense of newer claims on program funds. The problem is even greater when one considers that almost all of these firms had previously covered the cost of producing such catalogues on their own previous to the initial intervention.

These dangers of creating the "thin edge of the wedge" type of expenditures are more likely to materialize in markets where many Canadian firms compete against each other for sales, the most likely and visible being the United States. An added dimension to this is that as more and more firms succeed in obtaining this assistance, the risk of having frustrated U.S. manufacturers launch an appeal against an unfair, general government subsidy of exports increases.

The equalizing concept can also be seen to work, or more precisely, *put to work*, by consultants. Some consultants have been sufficiently astute to note what activities governments seem prepared to lend their financial support to at any given time. A notable example, but certainly not the only one, is that of preparing marketing studies of potential foreign markets. Enterprising consultants then approached firms that might have been on the verge of exporting or opening new markets and offered to apply for government funds on their behalf in order to complete a marketing study. Since many of the studies were of the same geographic area, the consultants were able to use much of the same reports over and over. After several studies, profit margins were such that the consultants could afford to give the potential exporting firm "commissioning" the study a portion of the government funding.

2. *Grantsmanship and Gamesmanship*

Government assistance to firms is spawning a whole new government/industry consultancy business. Whereas large firms have usually been able to find sufficient resources to hire "public affairs" consultants to help them find their way around governments, individual small businesses have had neither occasion nor resources to employ such persons. However, concomitant with the increased emphasis by governments on the development of small firms has come increased program funding for a variety of endeavours including business expansion and export development.

Still, to access these pools of funding requires time and knowledge of what is available and where to go. Some persons have made it a practice to learn all about how government programs work and to monitor the sorts of activities government departments seem keen to fund. These person have then been able to turn this knowledge into business. We have already mentioned the firms that "specialized" in producing marketing studies. Such firms also specialize on obtaining PEMD grants to attend trade shows, travel to potential markets, or develop new promotional brochures.

In short, these firms specialize in advising firms on how they can obtain government financial assistance often for things they would have been prepared to do on their own. Needless to say, it does not take a good business person long to be convinced that cutting cost is definitely in their best interest. The argument is made even more persuasive if it can also be shown that a firm's major competitors are already receiving aid.

Four firms in our sample had dealt with consultants on a percentage contingency fee basis. For between 5per cent and 8 per cent of the grant, consultants would obtain all the forms, ferret out the information and write up the submission for funds. From the point of view of the firm, they stood to gain at least 40 per cent of the cost, while risking little if anything.

There are both positive and negative sides to using consultants when applying for government grants. On the positive side, the small firm with limited resources is saved the necessity of spending valuable managerial time and energy learning the "ins and outs" of government programs. However, outside of the "opportunity knocks" approach, exporting does require commitment to succeed. If a firm seeks out a consultant, or if the offer of a consultant's services coincides with managerial resolve to explore export possibilities then all is well.

Where problems arise or public money wasted, is when a firm applies on the advice of a consultant because there is "nothing to lose," or when consultants "beat the bushes" at trade shows for Canadian firms that haven't bothered to apply for government assistance. In the first instance, the initially low level of commitment does not auger well for future success, while in the second, one plants the seeds for an unnecessary and unhealthy level of dependence. We will return to the concern of instilling mounting levels of program dependency in Chapter 8.

One concern about the growing professionalization of "grantsmanship" is the simultaneous emergence of "gamesmanship" when applying for government assistance. While the latter is still isolated, there were firms in our sample that applied for grants on the basis of probability for success, particularly with the federal PEMD program which, in theory, has a payback provision. The higher the probability of succeeding in a market, the less likely they would apply for travel assistance. These firms sought government assistance only when possibility of having to payback the funds was remote. "Visits" to these markets sat on the knife-edge between a "long range plan" and a "vacation." If grantsmanship and gamesmanship should ever coincide, then we will have consultants selling firms on the benefits of "state sponsored tours" for a standard 10 per cent contingency fee.

Notes

1. *Services and Subsidies*, pp. 227-228.

2. At time of writing, the two most recent major investigations of government assistance to businesses are: Andre Blais *et al.*, *A Political Sociology of Public Aid to Industry*, Toronto: University of Toronto Press, 1986, Vol. 45; and the above cited *Services and Subsidies*. Both these studies refer to assistance provided to SMEs to encourage exporting. Both also suggest that the bulk of government financial aid goes to large firms but that government has demonstrated increasing sensitivity to the needs of small firms in the last five years.

3. S. Reid, "The Impact of Size on the Behavior in Small Firms" in *Export Management*, M.R. Czinkota and G. Tesar (eds.) Praeger: New York, 1982, pp. 33-4.

4. Department of External Affairs, *United States (Chicago and the Midwest): A Guide for Canadian Exporters*, Ottawa, 1985. is but one of many examples of pocket guides.

5. Department of External Affairs, *World Market Report*, Ottawa, 1985. Quotes are taken from Department of External Affairs, *Canadexport*, Vol. 3, No. 7, Ottawa, April 9, 1985, pp. 1 and 6.

6. Another investigation into the use of government export information concluded that government information activities "should thus focus on identifying and satisfying precise information needs and stop contributing to the already abundant and often redundant body of general information already available." Jean-Emile Denis and Daniel Depelteau, "Market Knowledge, Diversification and Export Expansion," in *Journal of International Business Studies*, Fall 1985, p.87.

7. Though the Study Team report on assistance to business noted that "PEMD beneficiaries are not the smallest businesses, for whom export marketing is often difficult, but medium sized and larger enterprises. Only half the applications come from companies with less than $2 million in sales; these companies receive 30 per cent of PEMD funds. *Services and Subsidies*, p.224.

8. Once again, the Study Team report in noting that the composition of Trade Missions was 50% manufacturing firms, 15 per cent primary producers and the rest service companies also stated, "These are principally large companies with average sales of $130 million." *Services and Subsidies*, p. 249.

9. The first of these fall under PEMD, while the latter was a part of the PPP program.

10. Ministry of Industry, Trade and Technology, *Export Programs and Services*, Government of Ontario: Toronto, 1984, p. 2.

11. Denis and Depelteau, (1985).

12. *Services and Subsidies*. The Study Team report noted that monitoring of outcomes with recipients is insufficient. "In point of fact, the repayable feature of the program design is intended mainly to forestall GATT challenges, and the cost of enforcing repayment is thought to approach the likely proceeds, p. 24.

13. As the Study Team noted, "The quality and quantity of market information about these (market) opportunities usually varies by country and by post." *Services and Subsidies*, p. 255.

14. *Services and Subsidies*, p. 228.

15. *Services and Subsidies*, p. 253.

16. *Services and Subsidies*, p. 253.

17. In addition, there are sufficient grounds to argue that a graduate of a traditional business school may be well-versed in the working of the large firm, but know very little about the needs and functioning of small firms.

18. This complaint is not peculiar to Canada, or to Canadian government departments. However, as one businessman noted, even large private firms do their utmost to ensure personal contact with clients. Having the name of the person to contact within the firm is considered sound, if not essential business. "If I tried to run my firm like a government department, I would be out of business."

19. Export Development Corporation, "Here's What EDC can do for the small and medium-sized exporters", in *EDC Today*, Ottawa: October 1986. p. 3. The Special Joint Committee on Canada's International relations arrived at a similar conclusion. The Committee stated:

"The structure and attitudes of the Export Development Corp. are too often remote from those of small business, and this gap is difficult to bridge."

20. Export Development Corporation, "Here's what EDC can do for the small and medium-sized exporters," in *EDC Today*, Ottawa: October 1986, pp.3-4.

21. Export Development Corporation, "Export Insurance, Who Needs it?" in *EDC Today*, Ottawa: October 1986, p. 2.

Chapter 7

Export Advice and Analysis

I. Exporters Comment

After taking each interviewee through the steps they followed on deciding and subsequently acting upon the decision to export, we asked them whether they could identify any particular reason for their success. Some were not able to attribute their success to any specific factors. We followed this query with another soliciting any advice they might have for anyone contemplating exporting. Here, only very few firms were not able to provide a response. We closed each interview by asking for their views on the impact of free trade with the United States. What follows is a summary of the attitudes and views expressed.

1. Why They Succeeded

There was little modesty exhibited by the firms we interviewed. While they may have been awe-struck at one time about the possibility for sales in the large markets beyond our borders, there was scant evidence of doubt on their ability to sell their products or services abroad. And so it had to be. Successful exporters do not sell inferior products. Confidence in their ability to deliver what the client needed was essential. They could not afford to project an image which suggested anything other than what they were selling would meet or exceed the expectations of prospective clients.

(a) Service Firms

For service industries, several items were frequently noted as the key to success in export markets. The most important item was expertise. Not only did firms have to be among the best in the field in what they did, but they had to be perceived as such. The way to develop this was through recognition of personnel in the firm in professional bodies, or for the firm to have a solid track record. Being ahead of the competition in the application of certain technologies to solve problems was a benefit in establishing a firm's profile. Quality was seen as much more important than having the lowest price, particularly in private sector transactions.

Second to expertise was the development and cultivation of contacts and the desire to travel. The delivery of services relies much more on personal chemistry as it usually requires closer personal relationships in the regular conduct of business. The development of the necessary personal contacts demanded considerable commitment to travel. Similarly, depending on the nature of the work, fulfilling contracts often requires the staff to live abroad. Service firms serving developing countries stressed the need for good contacts with key personnel in the development agencies at home and abroad as instrumental to their success.

The third item was determination. For most service firms, developing and maintaining an export capacity is an ongoing task. Repeat business to the same country, let alone the same client, for the firms exporting services to developing countries is not the norm. Hence, the need for foreign marketing and travel is fairly persistent. Some firms expressed this determination by their close involvement with all facets of a project including needs identification, project design and specification, and the articulation of feasibility and need before the appropriate bodies, (i.e, sources of finance). A key to selling their services was this ability to match suitable projects in developing countries with money from aid agencies to finance these. This required time, patience, sound reputation and standing, as well as good contacts with funding agencies.

(b) Manufacturing Firms

Manufacturers gave similar reasons to account for their success. One very important factor was the quality of their products. As the head of one firm said, "The first sale could come from good luck or good prices, but only quality would ensure continued export sales." Another stated, "Price is a door opener, but quality maintains the sale."

Aside from the quality of the product, many firms' exports were unique products that fit into niches that had developed. For example, one firm capitalized on the resurgence of domestic wood-burning equipment by developing modern cleaning products which effectively and safely removed smoke residue. Another marketed an electronic digital testing device developed, in part, to meet needs internal to the firm. Niche selling, whether in the form of a unique device to fit into elaborate systems or in the provision of custom services and systems not provided by larger firms, was the primary strategy for 19 of the 33 manufacturers (58 per cent). Of the 15 Quebec manufacturing firms, 11 of 15 (73 per cent) actively sought out and exploited niches in the marketplace.

Equal importance was attached to the selection of superior local representatives. We heard more about the importance of good local representation than anything else, and not all in a happy vein. There were several tales of woe from firms that had acted hastily or chosen incorrectly. The consequences of a poor choice were not only lagging or faltering sales, but also giant-sized, time consuming problems that had to be dealt with before things could be put back on track. On the basis of his experiences, the head of an electronics firm suggested that one should direct as much effort to finding a representative as one does finding a suitable marriage partner.

Among other reasons to account for a firm's success we heard: good prices; (primarily based on the good exchange rate with the U.S. dollar); perseverance, persistence or the desire to succeed; luck; sound planning; good customer service; and, the reputation of Canada as a reliable producer.

2. *The Voices of Experience*

If well placed confidence in one's product or skills is an essential element of successful exporting it follows that implicit in the advice offered is that a firm's product or expertise is worthy of the efforts required for international marketing.

(a) Service Firms

The advice tendered by service firms reflected their own particular circumstances. Of all the advice tendered, two items stood out above the rest. First, a firm has to be certain that persons in the firm are genuinely interested in working abroad. Otherwise, the demands of travel and living abroad would prove too much to overcome. Second, is the admonition that clients were seeking "world class" expertise. Hence, firms were cautioned not to try to be all things but rather to sell only their strengths. Anything else would only result in a waste of time and money.

There was also some advice peculiar to the markets or approach of the firms. From those selling primarily in the U.S., there were several points related to market assessment and firm profile. These were:

- know what expertise you are offering and honestly assess your chances of selling this;
- know where potential clients are located and who *has authority* to make the decisions to purchase;
- plug into international associations early, both for information and for opportunities to further develop the firm's profile at meetings;
- get "known" in these associations and among potential clients;
- try to project an image of being an American company.

From firms selling services to developing countries, the advice was slanted much more towards public sector bodies, which reflected their role in paying for projects. For firms hoping to move in this direction they were advised to:

- ensure that all concerned are aware of the demands of exporting services to developing countries, the right attitude is essential;
- develop contacts with Canadian agencies active in assisting trade and development in developing countries (CIDA, EDC, CCC);
- develop contacts with international development agencies and monitor funding priorities and plans of these;
- use trade commissioners abroad for market assessment, introductions and endorsements;
- develop good negotiating skills and learn when to say no;
- treat each country differently and obtain good local representation where warranted;
- do not expect overnight results, be prepared to persevere, work hard and take risks.

A final set of firms working through larger Canadian firms in their exporting efforts advised new exporters accordingly by suggesting they try to align themselves with big firms having solid reputations, and who were already exporting or were seeking to export their services. They also advised on the benefits of developing their own contacts with CIDA to keep abreast of possible opportunities.

(b) Manufacturing Firms

As we have noted, exporting goods as opposed to services does not place quite the same demands on a firm. However, the two major items for service firms are also important to manufacturing firms as well. The first is an honest assessment of a firm's products. Is it designed to sell competitively on world markets? Not only how good or unique is the product, but is it reliable? Will it require frequent servicing and will this be feasible? If not, go back and redesign it. The second is the desire to export. New markets cannot be expected to develop overnight. It will take time, resources and will likely bring a measure of frustration before foreign markets show yields. Are the key persons in the firm committed to investing the required efforts to develop export markets?

In addition to these more global considerations are several others involved more with the process of exporting. Many of the suggestions reflected the desire for information of market potential. However, as the following examples show, the words used were mostly action or experientially oriented. In general, one found the required answers by moving and doing rather than reading and contemplating.

The advice can be ascribed to various stages of exporting, locating markets, establishing distribution, arranging finances and so forth. Some placed the emphasis on the more cognitive aspects or levels of exporting, using terms closely associated with the "rational approach." These persons suggested:

- plan your moves and follow through, set a realistic time period and don't quit before time has elapsed;
- know where you are going;
- do your homework, have your eyes opened and do an honest assessment of market potential;
- know your customers, know your costs.

Others gave advice more closely associated with the selective-entrepreneurial approach. They advised a more experiential method of gathering information which implied a more incremental, action directed approach. In this vein, potential exporters should:

- get out and communicate, talk to everyone, ask questions;
- go out and look for opportunities;
- make use of trade commissioners;
- go to trade shows.

In general, as the advice demonstrates, the preferred way to survey a market was to pay it a visit and assess possibilities by trying to make some sales. Hence the advice to:

- visit potential markets/countries;
- go meet distributors and clients, get to know them well;
- find out the potential clients in an area and pay them a visit;
- make sure of potential markets, test these by trying to make some sales.

As could be expected, firms were advised to spend as much time as necessary to carefully select good local representation.

Some firms focused on the problems that could arise and how or where one could obtain information on these. In this regard, firms advised novices to:

- get hold of recent exporters to learn about unforeseen problems;
- find a good broker and ask lots of questions (if broker cannot or will not answer chose another);
- learn about financing, in particular, find out how internationals deals are financed and the procedures involved with transferring goods and receiving payment;
- take steps to ensure payment through credit checks or terms of sale.

Firms were strongly advised to make the border transactions or the distance involved as invisible as possible in order to minimize the possibilities of client misperceptions as to delivery times and costs. It was good business to make it simple and easy for clients to understand the cost of the product delivered and in their currencies. Not all firms followed this practice or felt that they had to, but most did.

Firms were advised to take their time and proceed in a slow but steady rate, to develop one good market first and not to be afraid of tackling the U.S. market. Firms were advised to use government programs to offset the initial expenses of export marketing. Finally, came the warnings of the tough trials that lie down the exporting path such as slower than expected market penetration, fluctuating currencies, the expenses of solving problems from long distance. As one interviewee said, "I'd advise them to definitely 'go for it' but save some resources to fight another day. It may take time."

3. *Free Trade*

The response we received with respect to free trade with the U.S. reflected the optimism that comes from successful competition with U.S. firms. Even those firms that did not market goods or services into the U.S. felt that they had successfully competed against American firms in world markets. In addition, many firms that had to export to survive expressed the view that American firms would not try to exploit such a small market as Canada. Four firms operated under the trade conditions of the Auto Pact, and hence did not feel threatened by a free trade scenario.

The strongest support for free trade came from the high-technology manufacturers and the service industries attempting to service the U.S. market. For these firms, the border represented a troublesome barrier with uncertain permeability. If free trade would allow the flow of personnel into the U.S. to service products and clients, then their life would be made easier. There was some skepticism, however, about the ability to reduce discretion at the border and minimize the uncertainty and paperwork currently involved.

The firms that were mostly indifferent to these prospects were the firms operating in developing countries who did not fear U.S. competition, and those firms operating under the terms of the Auto Pact. Table 7.1 provides a break-down of the views expressed by manufacturers and service firms. The "Conditional" category includes firms that were "for or against" on certain conditions such as "I'm for it as long as it will get rid of the cost of using brokers, or "as long as the value of the dollar remains as it is." The "Unlikely" firm felt that it would just not happen, but then expressed who it would and wouldn't help.

When the six firms in these two categories were forced into one or the other camp, they split into four firms essentially "for" free trade and two "against." The views expressed could also be assessed with respect to the effect it was thought to have on the fortunes of others. Did firms place the outcomes only in terms of how it would effect their firms, or did they tend to think in terms of the effect of a general perspective of national economic health? Table 7.2 provides figures which give some insight of the firms in this regard.

Table 7.1
Views on Free Trade

	For	Against	Conditional	Indifferent	Unlikely	No Opinion	Totals
Manufacturers	12	4	3	6	1	7	33
Service	7	2	2	6	0	3	20
Totals	19	6	5	12	1	10	53

Table 7.2
Perception of Effects of Free Trade

		Effects on Own Firm				
		Positive	Negative	Indifferent	No opinion	Totals
Benefit to Economy	Positive	18		3		21
	Negative	1	7	1		9
	Indifferent/or No Opinion	4	1	8	10	23
Totals		23(43%)	8(15%)	12(23%)	10(19%)	53

For the most part, a firm's view of free trade tended to be consistent with how it would affect others. That is, those firms that expressed negative opinions felt the overall effects for other firms would also be negative while those who looked positively at the idea tended to see the overall effects as positive or have no opinion. The only firm that demonstrated gross inconsistency was that firm that saw free trade as unlikely as a result.

II. Observations: The Experts versus the Experience

The temptation when providing advice to others is to tell them to "do as I say, not as I do." For the most part, firms have avoided that temptation when providing advice to potential exporters. That is not to say those providing the advice would have other firms follow the same path as they did when first starting out. Rather, the advice represents a blend of what they would do in present markets, would do differently if they had it all to do over again, and what they think they have done right in the first instance.

As mentioned in Chapter 3, the key means of proceeding for most firms actively seeking to develop export markets was to locate the clients and work back to the firm from there. What that omitted was the initial requirement for the "mental preparedness to export" which, for the successful exporter, was almost certainly essential. The advice concentrates first on making certain a firm felt it was prepared to export. If a firm passed that hurdle, then the next concern dealt with the best means of locating and serving clients.

Our firms were not inclined to study figures. When pressed how they knew there was a market for their products or services in a given location, the answers ranged anywhere from "an educated guess" to "experience." They were not always right. Nor were they always successful. Nevertheless, there was a strong tendency to rely on experience, intuition and "word of mouth" in pursuing markets.

R. Seringhaus has found that firms already exporting rely heavily on experiential learning modes while firms "thinking" of exporting were more oriented to book learning and employed more cognitive means of obtaining information on market intelligence and exporting possibilities.[1] What is interesting is that both this study and another looking at export behaviour in Atlantic Canada provide some evidence to suggest that firms classified as "thinking" about exporting often have been thinking and reading for quite some time—and remain, at best, very marginal exporters in the interim.[2]

Exporters inclined towards analysis of data of where to export (or not to export) could give numerous reasons why they rejected this or that market as unsuitable. Perhaps that partly explains why they tend to be slower off the mark and in some cases, remain marginal exporters. That is not to suggest that market analysis is bad or counterproductive to exporting success. Rather, what it might suggest is that those persons that rely more on analysis tend to be "risk minimizers" and hence might have a natural predisposition against assuming the risks that purportedly go along with exporting.

Being mentally prepared and action oriented had to be counterbalanced by also being realistic in the assessments of markets. Confidence in what you are selling is a benefit; unrealistic expectation for rapid growth in sales is not. Though there were several examples of "overnight successes" among the exporting firms in our sample, what exporting requires most is persistence.

It is interesting to compare this advice and behaviour with that offered the novice exporter in traditional sources of "How to Export."[3] There are many superficial similarities between theory and practice. However, the appropriate behaviours as described in the models are much more elaborate and comprehensive than those exhibited by the firms in our sample. What strikes the analyst is that the prescription for model exporters appear to represent the sum of all the activities undertaken by all of the exporters. In that sense, it rings true for all, but bears scant resemblance to what any one firm might do.

The prescribed behaviours, like our sample firms, begin with an appraisal of the service or product about to be offered on foreign markets. However, the questions posed have little to do with a subjective or objective evaluation of the product and more to do with the "need to critique each of your products within a global framework."[4] This product critique asks:

> Who are the users of your product? Does it have a wide use, or its is use limited to a particular socio-economic group? This may immediately rule out certain markets. Is the use of your product influenced by climatic or geographic factors? What is its shelf life? . . . What are the operating costs of your product? . . . Does your product involve technical standards or other regulations that may differ from country to country? . . . Does your product require after-sales service and would this pose insuperable problems? Does your product ship easily or would shipping costs be exorbitant? Are there certain countries where your product would not sell because of traditionally negative attitudes toward that type of product, or a glut in the market, or import barriers or political factors? Do you have the capability to supply both Canadian and overseas markets?[5]

One of the very many assumptions contained in these questions is a considerable awareness of foreign peoples, governments, customs and markets. From our perspective, exporters in our sample were more likely to base their decision of a readiness to export on completely different criteria selected from the environment. Most important to them were the product quality, price and production methods of their major competitors, or, if niche selling, who used the products most related to the niche being addressed. It was these factors which, more often than not, guided their decision on whether they had a reasonable chance of competing in export markets.

In the prescribed export model, the first series of questions are designed to help the exporter determine whether they are ready to export and to select a few of the more likely markets. Subsequently, they are encouraged to obtain "up-to-date trade statistics and information for each potential market" in order to prepare a market profile.[6] This refers to background information, (e.g., population, climate, income levels, etc.), market access (e.g., trade restrictions, currency controls, trade agreements), market potential (e.g., current demand, growth potential, foreign and domestic competition), market regulations (e.g., terms of payment, health and safety standards, marking and labelling requirements) and finally the options for distribution (e.g., who is the local importer, what are the major channels, adequacy of transport, size and frequency of shipments).[7]

Much of this represents information that an exporter needs to know, but rarely did any in our sample discover such facts beforehand, or from a book, or all at once. Rather, they learned these things as they went along which is to say that most of these questions were answered during the export process and not when deciding which markets seemed most feasible. The answers came with experience and through meeting with agents, attending trade shows, and asking others. If they were confident that their products measured up to their competition in quality and price leaving the factory gate, most other things could be negotiated.

Notes

1. R. Seringhaus, "The Role of Information Assistance in Small Firms' Export Involvement" in *International Small Business Journal*, Vol 5.2.

2. J.A. Chenier, *Chance, Opportunity and Open Minds: The Small Firm and Export Behaviour in Atlantic Canada*, Moncton, N.B.: Monograph series, Canadian Institute for Research in Regional Development, 1988.

3. For illustrative purposes, we have chosen *So You Want to Export* . . . , published by External Affairs Canada for the purposes of giving "information and tips that can help Canadian firms enter into new markets abroad." This booklet is a fair representative of the "how to go about exporting" genre of texts provided by federal and provincial governments. As might be expected, it is biased towards the firm that has already established a domestic presence. "The best time for a company to consider exporting is after is has established itself successfully in its domestic market . . ." p. 3.

4. *So You Want to Export* . . . , p. 4.

5. *So You Want to Export* . . . , p. 4.

6. *So You Want to Export* . . . , p. 5.

7. *So You Want to Export* . . . , pp. 5-6.

Chapter 8

Conclusions and Recommendations

Over the last two decades, small and medium-sized firms have contributed to employment growth and industrial activity in increasingly larger amounts. Part of this growth has been fueled by the increased export capacity of the SME sector. The "prevailing winds of world trade" have also shifted to reflect that export sales are no longer the sole domain of large scale enterprises. Governments and commercial enterprises have attempted to reshape their practices and hone new instruments to foster the entrance of the small scale firm into world markets.

Our enquiry presumed, rather than measured, the presence of SMEs on the world stage. We explored how, when and why SMEs entered export markets. Our primary sources of information were the persons in SMEs who had created or acted on the opportunity to export their products and services. We challenged some of the basic though not universally held assumptions of the exporting model which are based on past expectations of a firm's behaviour and are mostly an extension of how larger enterprises have proceeded to export. The central assumptions in this regard are that SMEs enter export markets at a later stage of their development and they do so after considerable analysis of the options—which is to say they are assumed to behave like large firms having elaborate managerial and decision-making structures.

A central reason for exploring these issues was our interest in government programs designed to help SMEs to begin exporting. Our concern was that well-intentioned but incorrect assumptions based on earlier exporting traditions would provide the main underpinnings for, and thus shape present government policies designed to assist SMEs enter world markets. In addition to the role played by government programs, we wanted to learn more about the problems related to exporting and how SMEs typically went about solving these. What information did they require and where did they find this?

Were there networks or patterns of interaction within Canada—government agencies, business associations, export clubs, service agencies—that provided a natural source of information for SMEs hoping to "learn the ropes?"

This latter concern on the important links to SMEs in their exporting activities lead us to adopt the process of network analysis and organization sets. The knowledge brought to the fore by this approach provided several avenues for inquiry. First, it illustrated the most important sources of information to the novice exporter. Second, it gave us an insight into the effectiveness of other efforts to inform and influence SME behaviour, notably government publications and programs, business associations and so forth. Third, it promised a view of the gaps that must be bridged if future efforts at providing SMEs with the information they need to enter into exporting are to succeed.

Before stating our conclusions and recommendations we must be mindful of the limitations placed on our findings by virtue of our sample size. We cannot state, categorically, that x per cent of all SMEs will approach exporting in a given way or that y per cent of all exporting SMEs are of a certain type. We can only say that the observed types, needs and approaches are to be found in the community in some unknown proportion. What is important, it seems to us, is not the absolute size of the SME community that must export to survive without benefit of a large domestic market. Rather, it is the possibility that these do exist and that these present new challenges for public policy and models of SME development.

I. Present Government Assistance to Exporters

1. *The Need for New Assumptions*

The answers to how, why and when SMEs begin exporting presents serious challenges to past assumptions of export behaviour. We found three major motives for exporting. Firms may enter export markets because they must in order to survive, or because they wish to expand or simply to sell surplus production when the need for this arises. Twenty-two firms in our sample, (42 per cent) *had to* start exporting almost from the start of production if there was to be any hope of surviving. Canadian markets were not large enough to sustain the production of highly specialized products for manufacturers or the development of highly specialized knowledge within service firms. Advanced, high-tech firms often did only a small proportion of their business in Canada, and—in almost stereotypic fashion—domestic market penetration often only occurred subsequent to successful sales in export markets. Three high-tech firms had to demonstrate offshore success in order to convince Canadian customers of the value of their product.

For those firms that export over 90 per cent of their production or services, it is usually the case that there is no significant Canadian market. True, our sample did contain 20 firms that could be said to be following the "traditional route" for exporting, that is, having a well-established domestic market and looking to expand through foreign sales. There were a further 11 firms that were well established in the domestic market but looked to exports to reduce surplus or smooth out troughs in the business cycle. However, of the 42 firms that could be said to be actively pursuing sustained export opportunities, the majority would not fit with the traditional view of exporting firms.

The above concerns are related to why and when a firm might enter into exporting. With respect to how a firm proceeds, the manner of searching out export markets bears little resemblance to the formalized, rational model. In our research we saw that most firms do not proceed in an elaborate, analytically rational fashion. Nor do they rely on printed matter as a major source of information. There was a tendency for those that needed to export to survive to apply more resources towards market selection and subsequent development. For many, the decision was simply a case of "knowing" where the major market was located (usually the U.S.) and acting on that knowledge while problem-solving along the way.

We labelled this the entrepreneurial selective approach to export marketing. This approach was used by 29 firms in the pursuit of their initial export sales. In but very few cases were there formalized analyses of potential or gathering of data. It was simply a matter of getting on with the job. In the other 24 remaining cases, 11 approached the selection of markets in a haphazard fashion and 13 began exporting as a consequence of being approached by others.

These findings do not sit comfortably in a framework that assumes a track record of experience in the domestic market, or a time consuming study of potential export markets based on x number of crucial factors. It does not matter which of our classifications one chooses—Survival, Expansion or Surplus—it does not reflect the reality of the firms of our sample. In our view, the findings suggest that it would be far better if this emphasis on pre-export analysis were curbed. It has lead to a plethora of little used publications and the misallocation of time and resources. There are other, far better ways of choosing markets than by sitting in an office pouring over statistics of mean temperature, population density, average income, imports and exports and so forth. At least the persons we spoke to seem to have found a viable substitute.[1]

In summary, SMEs cannot and do not resemble their larger, more elaborate and more mature predecessors of yesteryear. The SME seeking to export can be a very new firm producing specialized products having brief life-cycles that depend on export markets to generate sufficient sales to survive long enough to still be in the running when the next new product hits the marketplace. Policies which seek to help small enterprises succeed in export markets but which are based on behaviours exhibited when products had longer life-cycles and were developed and sold by large scale, differentiated enterprises are obviously wide of the mark. So, too, are programs such as EDP in Ontario that require—more for purposes of screening out applicants "not ready" to export—firms to have been in business one year in order to qualify for assistance.

2. The Problem of Dependence

Government policies and programs in the SME sector are reminiscent of the old anecdote, "The food is miserable here. Yes, and the portions are so small." Or put another way, "life is both miserable and too short." *For our concerns this could be translated as,* "How can government programs be 'wide of the mark' yet still be so pervasive?" As our study shows, 83 per cent of the firms have received some government assistance for exporting.

Wide of the mark or not, governments are major players in the development of export capacities of small- and medium-sized enterprises, though not entirely in the ways they might have foreseen. Our analysis suggests there are several problems with the assistance provided both inside and outside of Canada. In part, these problems stem from the different modes of behaviour and the need for more complex assumptions about SME export behaviour to guide government programs.

Programs such as PEMD, APEX and ESF have undoubtedly contributed greatly to the export success of the SME sector. Much of their success lies in the ability to "remove the financial and managerial burden of entering new markets . . . [so as to] stimulate new export entry among small firms."[2] They have done so primarily by reducing the costs to the firm for foreign travel, participation at trade shows, acquisition of on-site information and other costs associated with foreign marketing.

The most important area in this regard is help to attend at trade shows which have been shown to be the most critical element in the exporting network. As most of the firms indicated, attendance at these shows is often the key to learning about the competition, meeting potential agents/clients, and marketing the firm's products. More importantly, perhaps, in comprehending the problem that has emerged is that attendance at these shows becomes almost compulsory. Non-attendance could be interpreted as instability or insolvency—the very image one must not project if one is to succeed in export markets. But attendance at these trade shows does not come cheap. Depending on booth size, show profile and location, the costs for rental, transportation and travel can amount to $250K. Many of the firms in our sample have become dependent on governments to foot much of the costs of attending at international trade shows. Some started out as "free-riders" by being included in the space rented by the federal or provincial governments at these events. Eventually, they have been or will be forced to leave and get space on their own, usually with government assistance to help cover the cost.[3] Consequently, firms often omit the cost of attending at major trade shows when establishing the export price of their products and hence may owe much of their export success to an artificially low price.[4] Oddly enough, most advisory pamphlets on costing export products suggest that export prices should be lower because the major promotional costs should be attached to domestic selling. Once again, this reflects assumptions of a progressive development model with a major domestic sales base whereas it is often the case that exporting SMEs must spend considerably more in order to maintain a profile in international markets.

Our research suggests that the vast majority of the firms receiving government financial assistance have begun to factor in a regular infusion of government funds as part of their operating budgets. These funds could be allocated towards the exploration of new markets, continued attendance at shows, improved packaging and marketing skills, product improvement, or expanded production facilities. Firms not only get quite used to receiving funding, they also develop and hone the skills necessary to acquire these from various government programs. Over time, this dependence can become institutionalized as a distinct section of the organization is created to monitor and ensure steady access to government programs. The result is the "program junkies" as noted by the Study Team that examined federal government subsidies to business.[5]

Tied aid, too, has contributed to the export performance of small firms. It has contributed to the development of export related businesses such as Trading Houses, and no doubt provided ample business and training opportunities for freight-forwarders. However, the success of using tied aid to institute further independent export behaviour has been mixed. Many firms that have exported via this route remain equally "tied" to such trade opportunities. Recent government efforts to encourage firms to look towards other international agencies with development budgets and projects have borne some fruit. But trade with developing countries is still a hit and miss affair with infrequent opportunities for repeat business in a country or market. In effect, the major client appears to be the ever present intermediary as opposed to the end consumer, namely, the funding agency. Perhaps this reflects a growing sophistication on the part of Canadian firms—the ability to recognize *who are the real buyers* of services.

Financial aid for exporters has been instrumental in helping firms develop an export potential. The obvious challenge facing governments is to minimize the chances of creating dependence on this aid while at the same time avoiding the need for all sorts of "front-end analysis" as to when or whether a firm should or could stand on its own in export markets, to ensure that deserving firms receive this aid but at the same time learn to export without it.

Governments must learn to do so at the very time when the criteria for assessing which are the deserving firms have become most difficult, that is, they cannot rely on the yardstick of domestic track record. And governments must do this without encouraging new forms of gamesmanship. Attaining this elusive goal is made more difficult by the presence of at least two levels of government—not to mention competing agencies within the same level of government—to which firms can both apply and appeal.

Governments are making some efforts to conquer this feature of dependence. The parameters for Ontario's ESF provide both a cutoff point for firms that succeed in export markets and built-in means of breaking dependence. Not only can firms only receive assistance to a specified value or frequency in a given time period, but once they attain a certain size, they no longer qualify for the program. However, before one gets too praiseworthy, one must remember that these parameters were drawn up in full cognizance of the federal assistance which would be subsequently available and for which the Government of Ontario encourages and assists firms to apply.

PEMD, too, establishes limits for the number of times a firm can receive assistance over a specified time period. In addition, assistance provided under PEMD to attend fairs or visit markets is, in theory, recoverable should the export initiative succeed. These measures, if enforced, should result in less dependency and pricing which reflects the cost of marketing abroad. But according to our interviews, recovery features of PEMD are not evenly applied. Furthermore, in some jurisdictions, because of the payback features, they are sometimes used to travel to areas where sales are least likely, while other programs without payback provisions, or a firms own funds, are used to cover the cost of developing more likely markets.

Similarly, after a decade of competitive federalism, the Government of Quebec is starting to rethink its approach to export incentive programs. However, the looser criteria for APEX and the absence of any payback requirements has encouraged the gamesmanship aspects of when to apply for what sort of grants.

3. *Trade Commissioners*

SMEs make extensive use of trade commissioners in establishing export markets. For the most part, the view of the trade service in the small business community is positive, but there is a substantial block of discontent. That discontent stems from being ignored or poorly served or both. In our interviews we heard both good and bad from both sides. Some SMEs do make unrealistic requests of foreign posts. But with the technology of today, is it necessary or acceptable to totally ignore what may be an innocent but unreasonable request?

Provincial offices abroad came in for high praise from any firm that had used their services. However, federal services were criticized in two main areas. One criticism was that the trade commissioners did not know their job well enough. After examining the traditional way of rotating and assigning trade officers we can well understand why firms would encounter trade commissioners that were not very knowledgeable of either "local" or Canadian conditions. It would seem that the typical trade commissioner spends a lot of time out of Canada but not much time in any one location—three years in each posting and three postings abroad for every one spent in Canada. This frequent rotation, in combination with the manner of job assignments within federal posts, considerably heightens the chances of encountering an ill-informed trade commissioner—regardless of initial training or background.

The second criticism related not so much to the skills of individual officers as to the ability of foreign posts to respond to reasonable requests. Our research did not take us sufficiently far into the depths of the trade commissioner service for us to make informed comment on the allocation of trade commissioners around the world in proportion to the services demanded of them. However, persons that had travelled extensively did comment on the unevenness of service allocation of trade personnel among the various posts. We heard enough comments in this regard to suggest that the government might wish to review its criteria for apportioning trade staff among its posts abroad. A key criteria, we might suggest, is the recent history of SME interest and activity in a given region.

Trade commissioners agree that the persons making the most use of their services are associated with small manufacturing and service firms. Larger firms may check in from time to time, but they are generally self-sufficient, asking mainly for introductions or referrals. Small firms with limited financial and managerial resources make many more demands. When one considers the importance of foreign sources in assessing export potential; the crucial role played by good local representation in determining export outcomes; and, the pivotal role that is or could be played by trade commissioners in facilitating the flow of information in this regard, it seems that the present arrangements fall short of even the loosest definition of reasonable expectations.

In these circumstances, it is not surprising that some of our interviewees strongly emphasized the importance of getting past the Canadians to the locally engaged staff in our posts abroad. The path followed by Ontario, and Quebec with five year postings and maximum use of locally engaged staff to help Canadians establish markets has many desirable features which should be adopted, wherever possible, by the federal service.

Finally, as product life-spans shorten, the ability to move speedily through the hoops of product approval from the necessary authorities becomes more important. Up until the present, gaining product approval from U.S. agencies has been relatively easy for the firms interviewed. Such was not the case in other parts of the world, most notably Europe where product approval can be a long and costly affair. This led several firms to suggest a stronger role for trade commissioners in providing advice on how best to proceed, and to monitor progress and, if necessary, make representations to ensure the approval process is fair. Some firms also suggested that governments should consider providing financial assistance to help defray the costs involved.

II. The Exporting SMEs

1. *Encouraging Domestic Networks*

The exporting SME does not fit easily into one mould. Some are well established firms looking to export part of their products or skills, others have barely managed to set up shop and establish roots in the business community before they are out on world markets looking for clients. It is no wonder that there is disagreement over whether firms "specialize" or "widen" their scope when they begin exporting. Our research indicates that it depends very much on the product and the time when firms begin exporting. But there are no hard and fast rules. Firms as well as business circumstances change. As a result, many conventional wisdoms about exporting are no longer valid, or, at least, are not always valid in all cases.

We have already commented on the issue of financial assistance to exporters as well as the plethora of export publications. There is one need, however, which remains unsatisfied for many present and potential exporters—readily accessible and reliable sources of information. Attempts in the form of export clubs, government sponsored seminars and the like have been unable to create the sorts of mechanisms that might fill this gap.

As noted in the Study Team report:

> The advent of stiffer competition and currency value fluctuations has made this [the feeding of information from foreign markets] to Canadian suppliers more critical.[6]

Our interviews indicated that trade shows were a central source of valuable information and learning for exporters. But these have their limitations. One cannot pick up a phone and call a trade show when, for some unknown reason, things suddenly start going amiss with the flow of their goods into a country, (Is it something they are doing or is it happening to others as well as a result of international tensions?), or when a firm has been approached with a good business deal and needs some information quickly on what is "standard practice" in any given market.

Just where the responsibility should fall for providing or improving this service is a moot point. Once again, to quote from the findings of the Study Team:

> There may be an opportunity to develop a private sector sourcing system of foreign market information for small and medium sized Canadian companies in addition to what is currently provided by the federal and provincial governments.[7]

In general, business, professional and trade associations in Canada to which the SMEs in our study belonged were not expressly concerned with the day to day issues of exporting. Two firms had received some advice and assistance from the CMA, but overall, neither this organization, nor any others were visible in the networks we uncovered. And, as we discovered, export clubs seem to fall victim to persons with stakes different from those originally intended, that is much of the membership is comprised of persons seeking to encourage indirect exporting rather than direct exporting. They, too, seem to project an underlying philosophy that SMEs (other than themselves) are too small to enter into the exporting game.

Networks are not created overnight. Given the amount of discretion in the rules governing the import-export domain and the degree to which marketing circumstances may vary in times of fluctuating currencies and changing technology, it takes time to accumulate experience and create the necessary nodes of information within networks. Customs brokers and freight-forwarders have been useful sources of information on how to get goods from here to there. And so they should as that is what they are being paid for. But that is not networking. Networks not only consist of such service firms, but they must also have, among other things, persons able to provide information about how well those very service firms are known to perform at their jobs.

To be able to give information one must first acquire it. In that vein, institutions are more likely to have the resources and the ability to collect the intelligence and serve as focal points of information. One theme which was frequently repeated was, save for few instances, the lack of useful service or information from domestic associations in contrast to the usefulness of similar American and international groups. It is true that many export clubs are given some measure of support by local Chambers of Commerce in Ontario; that la chambre de commerce is very interested in the area; and that the CMA has tried to play a more active role by providing information and educational courses. Overall, however, the needs of exporting SMEs are not met in a coherent manner.

The Canadian Exporters' Association (CEA) was not a relevant factor in the day to day functioning of the typical exporting SME. This organization, too, seems to lean towards the use of intermediaries such as trading houses to sell the products from small industries in foreign markets and has created a special unit with a mandate to encourage developments in this respect. Present membership consists mostly of large firms, and its main service thrust is aimed at influencing government policies in the directions sought by its member organizations.

The focus of most other organizations rests on domestic concerns. Could not Canadian associations provide better services to their smaller members? Why do they appear so disinterested in the problems confronted by exporters? Is it that they do not know where to start in providing such a service, or is it that they fear it would cater to only a minority of their members?

The suggestion of the Study Report, that is, to foster stronger links between Canadian organizations such as the Chamber of Commerce and the CMA with their counterparts in foreign countries for the express purpose of exchanging information and, thereafter, using regional and local chapters to make this information readily available across the land, in our view is fraught with difficulties. The limited resources and the broad mandates of these organizations in Canada will hamper the development of such a scheme within Canada. At the same time, the inherent contradiction contained in such a scheme, namely, that an organization supported by local industries should use their resources to provide intelligence to foreign firms on how to compete in their own territory does not portend of long-term stability.

We do not wish to imply that there is not a place for a functional network of private sector organizations. There is! However, before it can begin to develop, these impediments must be recognized and addressed. The greatest impediment would appear to be in acquiring relevant, timely information and, subsequently, enhancing the means of disseminating this to local firms.

Governments could bolster the role of trade and professional associations by keeping them abreast of developments in international markets, thus enabling them to become founts of information for persons to turn to with particular queries. Before they could do that, however, governments will have expend more effort to ascertain what is going on in the world and be better equipped to deliver useful and pertinent information, not by designing and printing another pamphlet, but by interacting in "real time" and sharing current information within a network. This will require a major shift in emphasis away from mere program delivery—the passing of forms and money through the door which a trained clerk can handle—and turning instead to the delivery of services.

To paraphrase the head of one firm, how could someone holding a job related to trade know so much about programs available to give financial assistance to exporters and so little about international trade? Or as another bemoaned:

> "All I wanted to know was which American taxes I might have to pay so I could determine a price for my products. After three weeks of phoning I finally reached someone who gave me the answers I needed. By that time, I was no longer certain I could believe what was said."

The present scheme is long on the ability to deliver programs to assist firms to export at both the federal and provincial level, and short on the ability to provide information except when it comes to "a handy little booklet." Several firms that made the attempt found their efforts to develop sources of information within government washed out by frequent organizational changes and the transfer of personnel. If program delivery is all that is required, than previous staff training levels and past organizational efforts might be adequate. If, however, the cultivation of information networks is the goal, then better information, and much improved service levels in the form of continuity of service and ease of access will be necessary.

2. *The Foreign Connection*

Two major reasons were given in our interviews to explain success in export markets. One was associated with the product for sale. Quality, price, availability all were cited, along with the more obvious criteria of meeting a need in the marketplace. The other factor which figured prominently was foreign representation. A good product might be able to sell itself! But most of the persons we interviewed would agree that export capacity is tightly bound up with the quality of representation in these markets. If a firm opted for a suitable form of local representation and then found the right representative, it did well. Of course, the two factors were not independent. If a product had good potential, it was probably easier to engage high quality local representation.

Indirectly, many of our firms used the search for local talent to determine whether their product or service could be sold in a particular market. If they could not find what they knew to be a suitable agent or a good distributor willing to assume some risk, then chances were, a market did not exist. Of course a firm could always find someone eager to sign up as a representative, but good quality usually only came with good prospects.[8]

As our research into the organizational arrangements demonstrated, the most feasible growth strategy is to integrate domestically situated tasks into the organization as a first step to achieving some economies of scale. Thus filling out forms, arranging for transportation, or monitoring progress of export permits and the like are usually the first functions integrated into the internal workings of the firm. Secondly, as interactions with foreign agents, foreign clients and domestic governments increase along with organization throughput, it is common to put more structured arrangements in place to handle the increasing number of transactions. Separating out managerial responsibility for "export sales and government relations" is a common feature. Even when firms expand into foreign territories with subsidiaries, they frequently maintain sales arrangements with local agents or distributors, that is, they adopt a differentiated marketing mechanism within a given market.

If there is a need for an emphasis on how one can best help new exporters it is in locating suitable local representation and selecting the most appropriate means for selling in a given market. Much has been done in this area. One good example is the stress placed on the benefits of employing agents when attempting to sell to the U.S. auto industry in conjunction with the ability to supply the names of the better known agents. Similarly, much of this education and selection of foreign representatives takes place at at trade shows. Nonetheless, more needs to be done to prepare the way. When one considers the importance of quality representation to the success of export sales, it is clear that there are few areas that merit as much effort and can yield such dividends.

III. Further Enquiries

1. *Ontario and Quebec*

Is there a difference in the business and political environments of Ontario and Quebec and does this effect the way SMEs in either province go about the task of exporting? Our sample size of 21 firms from Quebec and 32 from Ontario places strict limitations on our ability to draw meaningful conclusions. While we can note that the program offerings in the two provinces were very similar, we cannot make any generalizations on the scope, impact and outcomes of these services within the provinces. Nor can we say, in a definite way, whether our data supports or contradicts findings such as Faucher, Blais and Young who noted that Quebec's interventions as measured by transfers to business were, relative to total business investment, greater than that of Ontario.[9]

Nonetheless, and with those limitations in mind, we can lay out and pass comment on the distribution of firms along the important dimensions that emerged and were considered throughout the study. We do this not in the sense of drawing conclusions, but more in providing scope for further inquiries. It must be stated that, given the very small numbers in some categories, a shift of even one firm would have considerable impact in the distributions. Hence, the differences, where these are indicated, could just as likely reflect unintended biases in the sample as real differences in the approaches to exporting. The comparative figures are given in Table 8.1.

The first thing to note is the variation in the proportions of survival and surplus firms in the sample. This could either be a reflection of sampling variation or it could suggest that there are more firms in Quebec that adopt an on-again, off-again approach to exporting. Whatever the reason, this has direct implications for the results depicting variations in the approach to exporting. In chapter two, it was evident that the approach was partly related to the reason behind the decision. For example, survival firms were much more likely to adopt the entrepreneurial-selective approach whereas more of the surplus exporting firms fell into the "opportunity knocks" category. Thus, it may once again be more a reflection of bias in the sample. The next set of figures are also interrelated, namely, the number of markets and the degree of differentiation of export channels within and across markets. Again, the Quebec and Ontario firms differ appreciably. More than half of the Quebec firms exported to only one market, whereas only one-quarter of the Ontario firms did likewise. Once again, the numbers within each group are so small that we cannot state whether this is due to sampling error or an accurate reflection of the SME community. Nonetheless, this difference in the distributions effects the differentiation within markets.

While on the surface it appears that Ontario firms are more likely to differentiate within markets than are Quebec firms, when we control for one or many markets, we get a different picture. Seventy-nine per cent of all single market exporters rank *low* on "*within market differentiation*". Within that group of 19 firms exporting to only one market, 10 of 11 (91 per cent) Quebec firms employ only one channel, and only 5 of 8 (63 per cent) Ontario firms employ a single channel. When we remove single market exporters from both samples, we obtain the following intraprovincial ratios for within market differentiation:

Table 8.1
Some Ontario-Quebec Comparisons

Factor Considered	Ontario Number of Firms	Ontario Intraprovincial Distribution	Quebec Number of Firms	Quebec Intraprovincial Distribution
Reason for Decision				
Survival	13	.41	8	.38
Expansion	14	.44	7	.33
Surplus	5	.16	6	.28
totals	32	1.01	21	.99
Approach to 1st Market				
entrepreneur	19	.59	10	.48
haphazard	6	.19	5	.24
opportunity	7	.22	6	.28
totals	32	1.00	21	1.00
Number of Markets				
single	8	.25	11	.52
multiple	24	.75	10	.48
totals	32	1.00	21	1.00
Differentiation Across Markets				
high	13	.54	8	.80
low	11	.46	2	.20
totals	24	1.00	10	1.00
Differentiation Within Markets				
high	17	.53	9	.43
low	15	.47	12	.57
totals	32	1.00	21	1.00
Use of Government Services				
low	7	.22	5	.24
medium	8	.25	8	.38
high	17	.53	8	.38
totals	32	1.00	21	1.00

Table 8.2
Within Market Differentiation Controlling for Single Export Market

differentiation	Ontario	Quebec
high	.58	.80
low	.42	.20

Thus, it seems that when we control for single market exporting, there are indications that Quebec firms use more differentiated approaches both across and within channels. But it must be stressed that sample size in this instance is down to 10 firms, divided into two groups. We cannot boldly generalize from these data. One may ponder, however, whether this is indeed the case and, if so, why. Could it reflect a smaller, more tightly knit community of exporters in Quebec?

Finally, there is the matter of government programs and services. Both provinces have roughly the same proportion of firms employing none or very few government services in their exporting endeavours. If there is a direct translation between general industrial assistance and export assistance, then, following Faucher *et al.*, we might expect Quebec firms to score highest in use of government services. On the top end, however, we observe the converse to these expectations. While the removal of service firms highly dependent on tied aid from CIDA narrows the gap somewhat, we are still left with a higher proportion of Ontario firms among those making most use of government services. This result or pattern could be an indication of the conflict and competition between the governments of Canada and Quebec for the years immediately prior to this research. Even though there was a strong link between federal and provincial aid (i.e., the receipt of assistance from one level of government also implied access to programs of the other), this link was, in Quebec, at the instigation of the firms. In Ontario, firms going to the Ontario government for export assistance were also (or firstly) directed towards the federal programs that were available. This was not the case in Quebec which may explain why fewer firms are fully integrated in to the government's "help" network. On the other hand, this may again be more a reflection of sampling bias rather than a real differences in the populations.

2. *Other Avenues*

As with many exploratory studies, the number of new questions raised outnumber those answered. Beyond the possibilities for further research in interprovincial variations, there is also scope for much more work in the area of network development. This would include more knowledge of the type of information and expertise desirable in these networks. The use of organization sets and networks in this type of research has proved its worth. These is scope for more investigation into the boundary spanning function, the evolution of the firm as it increases export sales, the impact of various export channels inside and outside the firm and, lastly, the development of meaningful networks. Is it possible to narrow the gap between what experts think firms need to know in order to export successfully and what exporters seek to find out at various stages of the export process?

This, in turn, implies a more thorough examination and understanding of the interaction patterns by the leaders of SMEs. Many of these are not well integrated into a business community and do not have the time to spend interacting with "non-remunerative" related ventures such as associations. Their time and energies must be directed to the goings-on inside the firm and to the demands of their customers. This is particularly true for those firms, however many, that must begin exporting from start-up.

Another avenue demanding attention is the growing dependence on government assistance among some exporters. Do export prices reflect the cost of international marketing? What volume of sales are necessary to cover what might be termed the psuedo-fixed costs of international marketing, namely maintaining an adequate profile in the marketplace? Can an average cost by sector be computed for those sectors where the costs for trade shows must be incurred to maintain this profile? In putting these questions forward, we are not suggesting exporters must answer these questions beforehand, or that initial government assistance be predicated on this analysis. But sustained exporting cannot be predicated on ongoing government grants.

Notes

1. As Denis and Depelteau (1985) noted, and our study further suggests, the incidence of use of government pamphlets and statistics is very low among exporting firms.

2. S. Reid, "Impact of Size on Small Firms" in M.R. Czinkota and G. Tesar, (eds.) *Export Management: An International Context*, New York: Praeger, 1982, pp. 33-4.

3. Governments have, in the past, expanded the amount of space they take in trade shows for national exhibitors. However, there comes a time when room must be made for deserving newcomers. Though those forced to leave the national space are usually able to qualify for further government assistance, they may confront a situation where all available exhibit space has been spoken for and be forced to miss an appearance as a consequence. This had happened to two firms in our sample.

4. A concern which we did not examine is whether it is realistic to assume that firms could attain the level of sales volume necessary to cover the costs of attending at these trade shows over a realistic time period.

5. *Services and Subsidies to Business* . . .

6. *Services and Subsidies to Business* . . . , p. 255.

7. *Services and Subsidies to Business* . . . , p. 255.

8. That is not to suggest that breakthroughs will never be made in new markets with untried agents. But as a rule of thumb, our interviews would suggest that while firms should be

willing to take the odd flyer, they should also be wary of devoting too much time and resources in such situations.

9. Faucher, P., A. Blais and R. Young, "L'aide financière direct au secteur manufacturier au Québec et en Ontario 1960-1980" in *Journal of Canadian Studies*, Vol. 18, Spring 1983, pp. 54-78. Along the same lines see also Davenport, P., C. Green, W.J. Milne, R. Saunders and W. Watson, *Industrial Policy in Quebec and Ontario*, Discussion Paper Series, Toronto: Ontario Economic Council, 1983.

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by John A. Chenier and Michael J. Prince

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